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Eurozone in Crisis: Socialist and Liberal Critiques

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Postwar European federalist efforts to encourage cooperation between traditionally hostile countries ultimately gave birth to the European Union and its single currency. Today, the political and economic institutions and structures that emerged from the process of European integration confront the challenges posed by the recent Eurozone crisis. Europe's survival demonstrates resilience but does not evidence a transformation in the politically contested nature of European economic and political union. This thesis asks why the thick regulatory framework and rules-based nature of the Eurozone produced a suboptimal currency union. To answer this question, this thesis draws on the two major theories of political economy, liberalism and socialism. An analysis of these theories yields a better understanding of how the political and economic factors plaguing the Eurozone interrelate. The absence of a state to accompany the Eurozone creates a fundamental structural shortcoming responsible for the poor economic and political performance of the currency union. However, both liberal and socialist critiques fall short in offering viable solutions to ameliorate the persisting challenges plaguing the Eurozone. The employment of the two major theories of political economy to interpret the threats facing the currency union reveals the utopian ideals and political tasks accompanying liberal and socialist critiques. Understanding the political and economic elements of the Eurozone crisis and how both theories grapple with the challenges they present will prepare scholars of European political economy to offer appropriate solutions to strengthen the political support for the currency union.

Keywords
Eurozone, financial crisis, socialism, liberalism, Social Sciences, Political Science, Ellen Kennedy, Kennedy, Ellen

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INTRODUCTION

Europe is in crisis. Since the peak years of the Eurozone financial crisis, the list of Europe's woes has only grown. Today, the existential threat facing the European Union seems greater than ever. However, the progress of the last few years show signs of economic improvement as well as moments of European harmony. The Eurozone recently demonstrated trends in steady economic recovery and growth, and in the wake of recent terrorist attacks that attempted to divide the continent, Europe and its leaders came together in public demonstrations of solidarity.[1] Unfortunately, these fleeting moments of economic calm and expressions of European unity quickly fade when one remembers the underlying financial and political challenges that persist.

In 1999, automated teller machines began dispensing the euro. Roughly ten years after the establishment of the single currency, economic crisis revealed the weaknesses of Economic and Monetary Union. In 2011 and 2012, Greece, Portugal, Ireland, Italy, Spain, and Cyprus reached unsustainable debt to GDP ratios. Before the series of sovereign debt crises, the Eurozone did not possess a lender of last resort policy. As members of a single currency union subject to strict fiscal rules, indebted countries could not devalue their currencies to recover from market collapse. Instead, in the wake of the Eurozone crisis, Euro-area countries, the European Central Bank, and the International Monetary Fund put together last-minute packages to bail-out the indebted states of the currency union. These packages proved politically tumultuous both in wealthier member states transferring funds to poorer member states and within indebted

[1] "European Economic Guide," *The Economist*, February 16, 2016, http://www.economist.com/blogs/graphicdetail/2016/02/taking-europe-s/pulse.

countries living under the severe austerity measures contained in the terms of the bailout agreements. Since the crisis, few take the future existence of the euro for granted.[2]

The 2012 Fiscal Compact Treaty introduced stricter fiscal rules and greater constraints on national budget deficits with the hope that market collapse would not lead member states to threaten leaving the currency union. These macro-economic measures, however, raise doubts regarding the legitimacy of the European Union and its democratic accountability.[3] One European scholar contends that "the very rules-based nature of the improved system of governance…makes the EU even more technocratic and less political than it was before…which might please financial markets but which increases the distance between authorities and the real economy."[4] It is a sad irony that the single currency created to unify the continent has resulted in undermining the ability of its members to preserve Europe's ancient cultural heritage. Today, Italy maintains a public debt of 133% of GDP and Greece maintains a public debt of 179% of GDP.[5] The crisis burdened the two Eurozone countries that house the greatest symbols of Europe's past.

Throughout the European Union, right-wing populism has experienced increasing electoral success since the Eurozone crisis. France's National Front party led by Marine Le Pen and Britain's United Kingdom Independence Party respectively won 26% and 28% of the vote in the 2014 European Parliament elections, marking an unprecedented populist victory since the

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[2] Daniela Schwarzer, "The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union," *Global Policy* 3 (2012): 28, doi: 10.1111/1758-5899.12013.

[3] Schwarzer, "The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union," 38.
[4] Andrew Duff, *On Governing Europe* (London: Policy Network, 2012), 46.

[5] "The Necessity of Culture," *The Economist*, March 12, 2016, http://www.economist.com/news/europe/21694541-europes-shared-history-should-be-treasured-not-ignored-necessity-culture.

establishment of the European Union.[6] Within member countries' parliaments, anti-euro and anti-immigrant parties, including Greece's Golden Dawn and the Netherlands' Freedom Party, have gained the support of an increasing number of voters. Right-wing populist parties capitalize on feelings of insecurity and blame the Eurozone and foreigners for socioeconomic uncertainty. Right-wing xenophobic and anti-Muslim attacks have only strengthened in the last year as 1.2 million refugees fleeing political turmoil and war abroad entered Europe.[7] Greek shores alone saw the arrival of 800,000 refugees in 2015.[8] The migrant crisis provides fodder to European political discontent.[9] Even Germany, a country that had failed to see the rise of populist parties over the past few years, is finally witnessing a surge in anti-immigrant protest voting. Six months after Angela Merkel officially opened Germany's borders to refugees, German state ballots cast on March 13th unexpectedly favored Alternative for Germany, a three-year-old right-wing anti-refugee party.[10]

In addition to these financial and migrant crises, Europe also confronts a newly invigorated attack posed by Euro-skepticism. Britain will hold a national referendum on whether to continue its European Union membership on June 23rd of this year. The March 12th print

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6 "France in Shock," *The Economist*, May 26, 2014, http://www.economist.com/blogs/charlemagne/2014/05/national-fronts-victory. "Ukip wins European elections with ease to set off political earthquake," *The Guardian*, May 25, 2014, http://www.theguardian.com/politics/2014/may/26/ukip-european-elections-political-earthquake.

7 "Desperate times, desperate measures," *The Economist*, March 12, 2016, http://www.economist.com/news/europe/21694569-deal-turkey-staunch-flow-refugees-may-be-european-unions-last-hope-find.

8 "The Necessity of Culture," *The Economist*.

9 Many cite the open border policy of the Schengen agreement as the cause of the current refugee crisis. Criticisms of the Schengen agreement have recently emboldened populist anti-immigrant parties. In the past year alone, the open border policy has been suspended 21 times. Jacopo Barbati, "5 proposals to preserve Schengen," *The New Federalist*, March 1, 2016, http://www.thenewfederalist.eu/donttouchmyschengen-the-aftermath-5-proposals-to-preserve-schengen.

10 "Three regional elections have radically changed Germany's political landscape," *The Economist*, March 13, 2016, http://www.economist.com/news/europe/21694704-good-night-incumbents-and-xenophobes-three-regional elections-have-radically-changed.

edition of *The Economist* declared that "Europeans are questioning their common identity more intensely at any time since the second world war."[11] Even if Britain has always been an awkward and Eurosceptic member of the Union, the possible end of its long-standing membership serves as yet another reminder of Europe's uncertain future. At the time when the need for a common European identity proves greatest, the prospect of achieving such unity appears least viable.

Research Question

While these crises plaguing Europe arise from the challenges of recent events, they are rooted in the political and economic oversights present from the EU's beginning. The Maastricht Treaty establishing the European Union and the single currency only secured passage after national referendums in Ireland, France, and Denmark. The low turn-out in the Irish vote, the narrow margin of victory in the French vote, and the Danish exceptions from the Treaty after its second national referendum, dampened celebrations of the EU's birth.

Nowhere is the disconnect between the initial vision of European federalists and present-day political and economic reality more apparent than in the instability of the Eurozone. This thesis understands the Eurozone crisis as a function of the financial and political oversight in establishing a currency union without a fiscal union. Even among proponents of the Eurozone who predicted a crisis, "Euro-optimists [still] hope[d] that crisis [would] catalyze economic liberalization, European solidarity, and perhaps even those steps of political unification that historically have preceded, not followed, successful monetary unions."[12] Not surprisingly, the

[11] "The Necessity of Culture," *The Economist*.

[12] Timothy Garton Ash, "Europe's Endangered Liberal Order," *Foreign Affairs* March-April (1998): 60.

predictions of Euro-optimists did not come fruition and the crisis has certainly failed to inspire any lasting wave of European unity. What seems odd, however, is the contrast between the Eurozone's fiscal rules and the currency union's lackluster economic performance. Despite its highly rules-based nature and thick regulatory framework, why does the Eurozone operate as a suboptimal currency union?[13]

To answer this question, this thesis will examine liberal and socialist critiques of European political economy. The overarching problem plaguing the Eurozone remains its distance between macro-economic rules and the political outcomes they create. The Eurozone crisis was not merely fiscal and monetary in nature. The crisis highlighted the fundamental political weakness that afflicts the currency union. Thus, this thesis will rely on liberalism and socialism as sociopolitical theories to analyze the Eurozone crisis as a dialectic of the political and economic.

Argument

The Eurozone operates as a suboptimal currency union because it lacks a state. The Eurozone's statelessness is a structural deficiency reflected in the shortcomings of liberal and socialist critiques. While liberal and socialist critiques identify the Eurozone's statelessness as the fundamental design flaw in the currency union, both theories fall short in their visions of the European state the currency union so desperately requires. Liberal thought does not sufficiently wrestle with the issues of political disaffection and social policy demands that a European state would need to redress. Socialist solutions that call for a European social citizenship and the

[13] This research question is the result of supervisions with Dr. Geoffrey Edwards held at the University of Cambridge, Pembroke College, Spring 2015.

creation of a political body to reign in capital do not simultaneously ameliorate the deleterious outcomes of market logic and address the non-economic political factors plaguing the currency union. The necessity of a state and *demos* in Europe requires moving beyond the solutions presented by liberalism and socialism thus far.

CHAPTER ONE: UNDERSTANDING THE EUROZONE AT ITS MOMENT OF INCEPTION

Introduction

From the federalist dreams of Europe's founding fathers, emerged a confederation of member states that currently faces a democratic deficit and legitimacy crisis. To those still chasing after the political dream of a United States of Europe, the present crisis represents the potential failure of this vision. A return to the uneasy transitions of European integration proves essential to understand the Eurozone at its moment of inception. European political integration and its accompanying market ideology remain incomplete and reveal that the major questions of the Cold War remain essentially unsettled – East versus West, communism versus capitalism.

The present-day outcomes of European integration poke holes in the victories that followed the West's Cold War triumph. George Kennan and Friedrich Hayek, who both predicted the end of the Cold War, expressed concern over the nature of the West's victory. Kennan worried that the end of the Cold War did not reflect the merits of the Western side, rather the other side simply collapsed.[14] Hayek also cautioned that Western democracy only prevailed by revealing the weaknesses of communism rather than achieving constitutional restraint and limits on state power.[15] Thus, the West won by default, not by achieving a more perfect democratic and capitalist system. Hayek contended that the regulatory mechanisms of

[14] Runciman, David. "1989 and the End of History." Lecture, Ideas of Crisis from University of Cambridge, Cambridge, England, March 3, 2015.

[15] Runciman, David. "1989 and the End of History."

Western democracy that emerged, including a system of central banks and the establishment of more technocratic governance, illustrated a democratic deviation rather than democratic self-discipline.[16] In the wake of the Cold War victory, Eastern European countries joined the European Union and European leaders established the currency union. Both of these leaps forward in the European integration process encountered unanticipated challenges that emboldened doubts surrounding the project of political and economic union. While many nation-states continue to apply for and covet membership in the European Union, there remains a stark contrast between the economic performance and cultural values of core member states and those of peripheral member states. The arrival of new political and capitalist crises challenges the West's Cold War victory, raising suspicions regarding the laissez-faire principles, goals of political unification, and fiscal criteria that undergird the stateless currency union.

An analysis of the Eurozone crisis cannot treat its economic and political ramifications independently, as the crisis presents itself as a challenge to both the logic of financial markets and European democracy. The financial crisis threatened the survival of the European political project. While facing its financial crisis in 2008, no one in the United States of America questioned the legitimacy of the state itself. In Europe, on the other hand, the financial crisis called into question the value of participating in economic and political union. The Eurozone crisis and the solutions that subsequently emerged represent a breach in the EU's fundamental commitment to the principle of subsidiarity. The crisis worsened pre-existing tensions between national parliaments and supranational powers, as national parliaments felt constrained by austerity measures pushed at the European level. The failure of EU policies to enumerate appropriate political actions in the face of economic crisis, such as creating a lender of last resort,

[16] Runciman, David. "1989 and the End of History."

meant that last minute deals often unfavorably burdened and constrained national parliaments and their citizens. The economic inequality sustained in the Eurozone also reveals itself as a crisis of European democracy. Today, Europe holds the highest level of private wealth in the world, yet European governments face grave debt crises. This paradox elucidates that the distribution of wealth rather than absolute wealth determines levels of public debt.[17] The problem of peripheral state prosperity compounds doubts surrounding the currency union and its ability to deliver more uniform prosperity to its member states. The conundrum between economic inequality and the maintenance of democratic values proves particularly acute in Europe. Some argue that Europe remains ill suited for the project of political and economic union. However, perhaps the problem lies in the recipe rather than the ingredients. The assumption that monetary union and trade liberalization deepen political unity belies the Eurozone's failure to produce a successfully integrated continent.

Postwar: Rebuilding Europe and the Beginning of European Integration

The nation-state devastated the European continent during World War II, leaving 40 million Europeans dead. In 1946, Winston Churchill gave his famous "United States of Europe" speech at the University of Zurich. In this speech, Churchill proposed the creation of "a structure under which [the European fabric] can dwell in peace, safety and freedom."[18] Churchill envisioned this United States of Europe working in an equalizing manner, ending Europe's

[17] Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge, Massachusetts: Belknap Press of Harvard University Press, 2014), 540.

[18] Winston Churchill (speech, University of Zurich, September 19, 1946), Council of Europe Documents and Archives, https://www.coe.int/t/dgal/dit/ilcd/Archives/selection/Churchill/ZurichSpeech_en.asp.

"nationalistic quarrels" by ensuring that no state would possess more power than any other state.[19] Drawing on a long history of discussions of a United States of Europe beginning in 1923 with Count Coundenhove-Kalergi's *Pan-Europa*, Churchill's speech placed a premium on political unity as the primary means to engage in peaceful institution-making in continent.[20]

Europe's devastation after World War II gave birth to reinvigorated attempts to pursue European federalism, continent-wide socioeconomic security, and military and diplomatic peace between nation-states. Tangible steps towards European integration efforts began after the war with the Schuman Declaration in May 1950. Presented by the French foreign minister Robert Schuman, the document called for the establishment of a European Coal and Steel Community (ECSC) wherein participating members would pool their production of coal and steel. Schuman contended that the creation of such a Community would make war between European superpowers materially impossible. This marked the first effort towards establishing supranational European institutions.

Churchill's United States of Europe speech and the Schuman Declaration differ significantly as plans to pursue European peace. Churchill's speech emphasized the process of establishing a United States of Europe as a straight-forward one: "All that is needed is the resolve of hundreds of millions of men and women to do right instead of wrong and to gain as their reward blessing instead of cursing."[21] Schuman, on the other hand, writes, "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements

[19] Winston Churchill, University of Zurich, September 19, 1946.

[20] D.K.M.K., "The United States of Europe," *The World Today* 3 (April 1947): 155.

[21] Winston Churchill, University of Zurich, September 19, 1946.

which first create a de facto solidarity."[22] Churchill's invocation assumes the predominance of supranational interests, while the Schuman Declaration concedes to the power of national interests in driving a process of European integration. Schuman enumerated a plan for joint economic development as an imperative step towards founding a federal Europe. His plan for de facto solidarity replaced Churchill's reliance on the moral action of Europeans.[23] Schuman did not view European solidarity as a natural state. Instead, European solidarity required deliberate crafting.

A Period of Change: The Push Towards the Single Market

The 1969 Hague Summit ambitiously expanded the European agenda, quieting initial efforts to resist Community progress towards more federalist institutions and policies. During the Hague Summit in 1969, the leaders of the European Community met to discuss completing, deepening, and widening European integration. During this summit the Community decided to admit the United Kingdom and placed Economic and Monetary Union on the European agenda. While the Hague Summit did not begin any formalized discussion of a political union, European leaders expressed the necessity for deepening European monetary solidarity.[24]

In the 1980s, discussions on establishing a political union began, as the push towards deeper integration continued. The 1984 Spinelli Report first attempted to draft language to

[22] "The Schuman Declaration – 9 May 1950," European Union, http://europa.eu/about-eu/basic-information/symbols/europe-day/schuman-declaration/index_en.htm.

[23] "The Schuman Declaration – 9 May 1950."

[24] Jean Rey (speech, The Hague Summit, December 11, 1969), https://www.coe.int/t/dgal/dit/ilcd/Archives/selection/Churchill/ZurichSpeech_en.asp.

establish a European Union, but this effort did not come to fruition until the 1993 signing of the Maastricht Treaty. The 1986 Single European Act preceded the Maastricht Treaty, completing the common market and expressing the goal to establish a common currency. Historian Ivan Berend writes, "Instead of a united Western Europe as a defense against war, the [Single European] Act declared that the Community protects the common interests of its member countries by creating a common market with the free movement of goods, people, services, and capital."[25] The common market transformed an originally diplomatic goal into a European-wide effort to establish economic cohesion in hopes of yielding political unity.

New economic challenges introduced by increasingly competitive international trade raised questions regarding the ideal European political and economic institutional set-up. In 1989, Jacques Delors, the President of the Commission, gave a speech exalting the federalist vision of the founding fathers of Europe and insisting that the single market would not only deepen integration but also ensure Europe's competitiveness on an international level. Delors declared, "History is accelerating. We must accelerate as well."[26] In the face of new challenges brought by globalization, Delors insisted on the single market and an accompanying commitment to European unification as necessary measures to guarantee the continent's future prosperity. Delors' speech contrasted greatly with UK Prime Minister Margaret Thatcher's speech in 1988 in which she indicted Delors' call for a strong European state. In her speech, Thatcher discussed the importance of defining Europe, not as a creation of the Treaty of Rome, but as a collection of independent and sovereign states.[27] She declared, "To try to suppress nationhood and concentrate

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[25] Ivan Berend, *Europe since 1980* (Cambridge, UK: Cambirdge University Press, 2010), 162-163.

[26] Jacques Delors (speech, Bruges, October, 17, 1989), http://www.cvce.eu/content/publication/2002/12/19/5bbb1452-92c7-474b-a7cf-a2d281898295/publishable_en.pdf.

[27] Margaret Thatcher, "Speech to the College of Europe" (speech, Bruges, September 20, 1988), http://www.margaretthatcher.org/document/107332.

power at the centre of a European conglomerate would be highly damaging and would jeopardise the objectives we seek to achieve."[28] The shared commitment to economic liberalization endured while the path towards greater political unity remained the aspiration of a few. The desire to maintain economic competitiveness in a globalized economy pushed Europe forward despite the contradictory political visions accompanying this ideal.

The Eurozone and its Crisis

European monetary union ostensibly ended the national economic sovereignty of its participants. The 1993 Maastricht Treaty established a monetary union with a single currency that fixed exchange rates under the auspices of the European Central Bank. Utilizing a classical liberal model and the example of the Bundesbank, the architects of the currency union and its central bank envisioned and attempted to secure the independence of economic affairs from political pressures. Unfortunately, the Maastricht Treaty marked the beginning of the European Union's uncertain future ridden with Euro-skepticism and confrontations from plebiscitary pressures. The ratification crisis in which a series of national referendums challenged Maastricht's passage demonstrated that democracy and citizenship remained largely understood and practiced at the national level. The presumption that the euro would lead automatically to deeper integration undergirded the effort to establish the monetary union. However, Maastricht pushed for supranational enforcement of fiscal rules without sufficient prior political integration. The strong belief that the symbolic power of money could create a shared identity obfuscated the

[28] Margaret Thatcher, "Speech to the College of Europe."

persistence of differing national fiscal approaches.[29] Maastricht introduced rigorous rules for economic engagement in the currency union while it simultaneously challenged nation-state authority as members made significant concessions of economic sovereignty. The ultimate passage of Maastricht signaled the demise of the permissive consensus as political elites could no longer rely on an apathetic European public to secure the progress of European integration.

Today's circumstance demonstrates the need for a new political consensus to support the future existence of Europe's economic and political union. Erik Jones, a European scholar, argues that the widespread political cautioning that a single country exiting the euro would bring down the Eurozone misidentifies the real threat posed by the current crisis.[30] Jones writes, "the European project will continue so long as Europeans want to participate."[31] Fatalistic commentary on the future of the Eurozone places the EU's security in the euro rather than in public faith. The political response to the crisis and the remedies conceived demonstrate the prioritization of appeasing financial markets over efforts to ensure the willingness of public participation in the European project.

Scholars continue to propose long-term solutions to help manage the tensions introduced by monetary and political integration. Andrew Duff argues that fiscal solidarity will require a European transition into a federal union to deliver "deep democracy" and "foster a sophisticated sense of European citizenship."[32] While Duff argues that a hybrid executive and opaque democracy will not suffice to provide an adequate governance structure to accompany European

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[29] Wolfgang Streeck, "Why the euro divides Europe," *New Left Review* 95 (2015): 11.

[30] Erik Jones, "The JCMS Annual Review Lecture: European Crisis, European Solidarity," *Journal of Common Market Studies* 50 (2012): 56, doi: 10.1111/j.1468-5965.2012.02272.x.

[31] Jones, "The JCMS Annual Review Lecture," 56.

[32] Andrew Duff, *On Governing Europe* (London: Policy Network, 2012), 57.

monetary union, it remains unclear whether or not a complete transition into a federal polity will provide the most promising solution to Europe's problems. While scholars maintain a consensus that monetary union requires political institutional support, Jean Pisani-Ferry asks scholars to consider the question, "why would political union necessarily improve the monetary union's resilience to shocks?"[33] Daniela Schwarzer proposes two potential alternatives to federalist transformation. In order to ensure the future of the Eurozone, Schwarzer argues that a leap forward in integration must occur.[34] Schwarzer also proposes that the current crisis renders necessary a change in either the current structure or the current membership.[35] Whether the EU transforms into a full-fledged federal polity, deepens political integration, or pursues a change in membership, any path forward must seek to secure improved monetary policies while also fostering a sense of European unity and democratic support.

Theories of Integration

Economic integration allowed the larger project of European integration and unification to progress. By combining industries, the founding fathers of Europe believed they could secure regional peace and unity. After the enactment of the Schuman Plan, integration expanded and established agricultural and regional development policies, a European Court of Justice, and the common currency. While many contend the creation of the single currency represents the

[33] Jean Pisani-Ferry, "Only One Bed for Two Dreams: A Critical Retrospective on the Debate over the Economic Governance of the Euro Area," *Journal of Common Market Studies* 44 (2009): 835.

[34] Shwarzer, "The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union," 28.

[35] Schwarzer, "The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union," 28.

ultimate supranational spillover, the Eurozone's crisis reveals that the task of economic and political integration remains more incomplete than previously thought. Of course the establishment of a European Union and its single currency speaks to the power of the federalist vision. What began as an effort to pool coal and steel production resulted in the massive bureaucracy in Brussels. However, the challenge posed by new European crises demonstrates the persistence of unresolved political and economic tensions and the arrival of unanticipated threats.

Neither the neofunctionalist theory of spillover nor the liberal intergovernmentalist theory of domestic preference formation and interstate bargaining fully accounts for the dynamics of European integration. Ernst B. Haas' theory of neofunctionalism asserts that integration creates a new political structure that supplants the pre-existing one. Haas argues that the integration of individual sectors leads to spillover effects, which further the process of integration. In this theory, integration strengthens supranational powers while weakening the nation-state. Many call the creation of a European monetary union the ultimate supranational spillover.[36] Given that the Eurozone crisis reveals the weakness of supranational political and economic legitimacy, many now question the neofunctionalist account of integration. The salience of national politics and preferences that threatened the Eurozone in the wake of the crisis demonstrate the breakdown of the permissive consensus on which spillover theory relies. In contrast to Haas' theory of neofunctionalism, Andrew Moravcsik's theory of liberal intergovernmentalism characterizes the nation-state as the rational actor driving integration. In Moravcsik's liberal intergovernmentalism, integration is a state-centric choice and may even strengthen or rescue the nation-state. While liberal intergovernmentalism more accurately aligns with the history of European integration than neofunctionalism, Moravcsik's theory seems to exaggerate the power

[36] Philippe Schmitter, "Classifying an Anomaly," *New Left Review* 73 (2012), 21.

nation-states maintain after the establishment of supranational institutions. The dominant pattern of tension between Europe and its members demonstrates that nation-state participants largely feel constrained by the rules imposed at the European-level. While both theories exaggerate their own version of the relationship between the nation-state and the emerging supranational body, an interrogation of these theories against present-day European realities indicates the awkwardness of the position held by nation-state members of the European Union.

Designing a supranational body that derives legitimacy from nation-state interests means that nation-states participating in deepening integration simultaneously occupy a role as the primary proponents, drivers, and beneficiaries of integration and a role as the protectors of national sovereignty. This position of the nation-state in the history of European integration reveals a fundamental tension. The founding fathers of Europe believed European integration would produce a federal union to replace the power of the nation-state.[37] The nation-state's gradual transference of sovereignty to the supranational level would legitimize the union, "anchored in an expanded popular sovereignty, based on universal suffrage, its executive answerable to an elected legislature, and its economy subject to requirements of social responsibility."[38] Historian Perry Anderson provides a grim account of the present-day distance from this vision of the European Union. Anderson emphasizes that the customs union made possible through European integration failed to produce enforcement mechanisms for supranational decisions.[39] In addition to the emergence of unaccountable decision-making powers at the European level, the elected European Parliament seems irrelevant to most

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[37] Perry Anderson, *The New Old World* (London: Verso, 2009), 60.

[38] Anderson, *The New Old World*, 60.

[39] Anderson, *The New Old World*, 23.

European voters.[40] This only serves to exacerbate the legislative detachment between the supranational and national levels. Many view the European Union as an awkward political body whose politics burden nation-states still responsible for selecting their own fiscal, social, military and foreign policy regimes. The Union's part-federal and part-intergovernmental structure means its participants occupy the paradoxical position as nation-states and member states. This inherent structural tension proves a significant source of the democratic legitimacy problems plaguing the union.

Rather than a complete transference of their powers to the European level, national parliaments have managed to maintain significant powers while they also sacrifice crucial areas of national sovereignty. The relationship between the national and supranational level represents a tension of powers rather than a balance of powers. The policies decided upon at the national parliamentary level remain the most salient in the minds of European voters while the policies that crafted at the European level appear solely regulatory, obtuse, and somewhat impertinent. The continuing power of the nation-state in European political life presents a challenge to the theory of neofunctionalist spillover, which assumes that the process of integration itself erodes the nation-state and superimposes a supranational polity on the pre-existing political community. Thus, while integration continues to spillover into an increasing number of policy spheres, nation-state constituencies more clearly see themselves as participants in national democracies rather than as European citizens.

The historical achievements of wider and deeper European integration occurred in the absence of widespread enthusiasm and efforts to construct a European identity. This pattern of European integration helps to explain the persisting power of the nation-state. The breakdown of

[40] Anderson, *The New Old World*, 23.

the permissive consensus reveals a weakness in the neofunctionalist theory of spillover, as it fails to account for the occurrence of deeper integration without enthusiastic support. Margaret Thatcher's concern to maintain European economic competitiveness in a globalized economy did not represent any endorsement of a European superstate.[41] This attitude exemplifies the proliferation of European economic consensus without political consensus. For some, the ultimate implementation of the single market represented a necessary step to achieve regional economic prosperity but it did not signal the presence of any universal desire to transform Europe into federal polity.

To create a complete account of the Eurozone crisis requires a deep understanding of how the political and the economic elements of European governance affect and one another. John Dunn argues that there exist economic limits to modern politics. He contends that in order to develop an understanding of modern politics, one must offer a thorough analysis of how economic realities constrain the political possibilities of modern governance. Klaus Armingeon and Lucio Baccaro's account of the sovereign debt crises facing Europe, on the other hand, emphasize the political limits to economic governance. Armingeon and Baccaro argue that the policy response to the sovereign debt crisis defies the assumptions of comparative political economists who predict that countries with different domestic political features will respond differently when faced with a common shock.[42] Instead, the response sovereign debt Europe demonstrates a policy convergence and evidences a shrinking policy space.[43] The rise of

[41] Margaret Thatcher, (public statement, October 8, 1992), Thatcher Archive, http://www.margaretthatcher.org/document/108305.

[42] Klaus Armingeon and Lucio Baccaro, "Political Economy of the Sovereign Debt Crisis: The Limits of Internal Devaluation," *Industrial Law Journal* 41 (2012): 264, doi: 10.1093/indlaw/dws029.

[43] Armingeon and Baccarro, "Political Economy of the Sovereign Debt Crisis," 264.

technocratic governance in the wake of the crisis means “governments of different political orientations and of different parliamentary strength [find] themselves implementing essentially the same structural adjustment programme.”[44] Armingeon and Baccaro write that these “developments signal serious problems of democratic legitimacy.”[45] Understanding the economic and political limits present in the crisis climate offers a view of the Eurozone as a victory in the European integration process as well as a lost opportunity to strengthen European democracy and its political citizenship.

In addition to the political challenges of modern economic governance, the economic governance of the stateless currency union faces the challenge of tension between the nation-state and supranational authorities. Political and economic authority in Europe remains ambiguous at its various levels of governance. Economist Thomas Piketty argues that Europe’s sovereignty problem presents the primary threat to the currency union. Thomas Piketty argues that the Eurozone crisis was inevitable as monetary union did not lead to “political, fiscal, and budgetary union, to ever closer cooperation among the member states.”[46] Piketty writes, “When countries relinquish monetary sovereignty, it is essential to restore their fiscal sovereignty over matters no longer within the purview of the nation-state.”[47] Any economic solution to the euro-area crisis must possess a political component capable of addressing the fundamental problem of sovereignty in Europe. Despite decades of regional integration secured via economic integration, the relationship between the state and the economy in Europe remains uncomfortably ambiguous.

[44] Armingeon and Baccarro, “Political Economy of the Sovereign Debt Crisis,” 267.

[45] Armingeon and Baccarro, “Political Economy of the Sovereign Debt Crisis,” 267.

[46] Piketty, *Capital*, 556.

[47] Piketty, *Capital*, 561-562.

Conclusion

The Eurozone crisis indicts the assumptions of the major theories of integration. The problem lies not in the fact that Europe's destination remains unknown. Rather, leaders of European integration have failed to translate the aims of the European political project to their constituencies and develop a sophisticated European citizenship. The participants of European integration embodied radical endorsements of divergent visions for the character and extent of European integration while the very grand project of economic and political union moved forward apace. An unadulterated belief in laissez-faire principles, the conviction that the cash nexus can secure political unity, and the establishment of ambitious fiscal criteria that overlooked nation-state economic ideologies, undergirded the Eurozone at it moment of inception. The most recent crisis of European technocracy and capitalism unraveled the West's Cold War victory, calling into question the assumption that the cash nexus establishes political unity. Economic determinism rests as the heart of this assumption in its belief that a successful European economy can deliver the politics it needs to secure its viability. However, the failure of this assumption helps explain the unanticipated democratic and fiscal challenges facing Europe. The character of the Eurozone as a stateless currency produces a dangerous politics that both obstruct and require the development of deeper European unity.

CHAPTER TWO: BUILDING A LIBERAL CRITIQUE OF THE EUROZONE CRISIS

Introduction

The liberal critique of the Eurozone crisis identifies the crucial need for a European state to accompany the currency union. While the liberal critique diagnoses this fundamental structural shortcoming, it proves deficient in ameliorating Europe's political legitimacy problem. Political disaffection towards the currency union as well as social policy demands of European welfare states, remain absent from the liberal account. When the liberal critique fails to sufficiently grapple with the political elements plaguing the Eurozone, its conception of a European state also falls short. Hayek's model of interstate federalism pairs political federation with a liberal economic order. This pairing, however, does not require the presence of a European *demos*. Instead, the Hayekian ideal argues for economic unity while ignoring the importance of political unity. Rather than building a common political culture that binds member states to the supranational polity, Hayek contends that the interstate federation shall not extend itself where agreement does not exist. Unfortunately, the Eurozone crisis demonstrates the difficulty of achieving successful economic liberalization without establishing a sense of common European values and ideals. Given the threat political disaffection poses to the currency union, any critique of the crisis must sufficiently wrestle with this component of Europe's legitimacy problem. Similarly, the model of a social market economy envisioned by German Ordoliberals insufficiently addresses the political responsibilities of the state. While the state, as imagined by Ordo thinkers, intentionally designs the principles and aims undergirding the free market system, the state's role in drafting and enacting social policies remains superfluous. The policies of European welfare states do not simply represent concessions to citizens' political demands but demonstrate the indispensable state role in presiding over decisions on the appropriate level of state intervention in economic life. Ordos, however, fail to understand how market logic necessitates state intervention. Ultimately, the Ordo vision remains vague in its enumeration of state responsibility to alleviating the inequality of its citizens. While both the Hayekian and Ordoliberal critiques identify the challenges that arise from the Eurozone's statelessness, efforts to envision a European state will founder if unable to build political consensus and a clear understanding of social policy obligations.

Hayek's Interstate Federalism

Hayek's model of European federalism establishes economic liberalization without political unity, a template that achieves relative peace but proves politically unsustainable. Hayek contends that only by pairing a strong interstate federation with a liberal economy can Europe achieve harmony among its member nations. Political union without the elimination of economic barriers between members will fail to establish the "internal coherence of the Union."[48] Hayek writes,

> "The existence of any measure of economic seclusion or isolation on the part of an individual state produces a solidarity of interests among all its inhabitants and conflicts between their interests and those of the inhabitants of other states which – although we have become so accustomed to such conflicts as to take them for granted – is by no means a natural or inevitable thing… It seems fairly

[48] Friedrich Hayek, "The Economic Conditions of Interstate Federalism," in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), 257.

> certain that political union between erstwhile sovereign states would not last long unless accompanied by economic union."[49]

This argument exhibits a fundamental shortcoming of the Hayekian interstate federation. In the Eurozone, national "solidarity of interests" persist despite member state agreement to the currency union's fiscal criteria. Rather than inspiring unity, the Maastricht criteria breeds political resentment. The budgetary rules laid out in the Maastricht Treaty disregard national differences on the appropriate level of state intervention in economic life and state response to economic crisis. Through economic liberalization, the single currency area promised Europe an economically competitive edge in the age of globalization; however, the terms of membership in the single currency area appear more politically untenable than ever. During the crisis years, efforts to maintain European economic liberalization constrained national parliaments. The undemocratic character of bail-out agreements imposed by the European-level engendered political resentment among national constituencies.[50] Monetary union without a state that builds political unity yields an incomplete recipe for peace. Contrary to the Hayekian model, economic liberalization alone does not sufficiently serve as harmonization.

Given the predominance of national political discontent during the crisis years, the post-national assumptions that undergird Hayek's interstate federation appear premature. Perry Anderson writes, "what [Hayek] did not anticipate...is the disaffection that the regime he envisaged has aroused in the masses subject to its decisions."[51] Euro-skeptic populist parties experienced unprecedented success after the Eurozone crisis. The

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[49] Hayek, "Interstate Federalism," 257-258.

[50] Armingeon and Baccaro, "Political Economy of the Sovereign Debt Crisis," 268.

[51] Martin Höpner and Armin Schäfer, "Embeddedness and Regional Integration: Waiting for Polanyi in a Hayekian Setting," *International Organization* 66 (2012): 430, doi: 10.1017.S002081831200015X.

True Finns party that campaigned against Eurozone bail-out agreements made electoral gains in the 2011 Finnish elections.[52] Similarly, the Netherlands' Party for Freedom and France's National Front continue to demonstrate the increasing popularity of anti-euro and anti-immigrant platforms.[53] While Hayek argues that achieving peace requires economic liberalization, he does not address the politics produced when economic liberalization yields crises. The challenges of the Eurozone crisis extended beyond its economic circumstances and exacerbated European political discontent. In this way, the financial crisis posed an existential threat to Europe.

The current crisis reveals that an interstate federation without a European *demos* challenges the Hayekian vision for European harmony. Hayek's constraining rules for policy enactment only serve to make agreement more difficult to achieve in Europe's diverse union. In order to accept an interstate federation, Hayek argues, one must accept that "certain forms of economic policy will have to be conducted by the federation or by nobody at all."[54] He continues,

> "Whether the federation will exercise these powers will depend on the possibility of reaching true agreement, not only on *whether* these powers are to be used, but on *how* they are to be used. The main point is that, in many cases in which it will prove impossible to reach such agreement, we shall have to resign ourselves rather to have no legislation in a particular field than the state legislation which would break up the economic unity of the federation. Indeed, this readiness to have no legislation at all on some subjects rather than state legislation will be the acid test of whether we are intellectually mature for the achievement of superstate organization."[55]

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[52] "An ever-deeper democratic deficit," *The Economist*, May 26, 2012, http://www.economist.com/node/21555927.

[53] "An ever-deeper democratic deficit," *The Economist*.

[54] Hayek, "Interstate Federation," 266.

[55] Hayek, "Interstate Federation," 266.

The Hayekian interstate federation does not require its envisioned European state to build political agreement. While agreement proves essential, Hayek disregards the political contestation required in a democracy that actually helps construct consensus and shape the *demos*. Without building a framework for European political unity, the political disaffection produced by the crisis proves particularly potent. The Hayekian order now confronts fundamental obstacles to achieving any resolution of the political discontent produced. Höpner and Schäfer argue that the push for integration through law rather than political integration, does not sufficiently reflect the competing interests represented within the diversity of member states.[56] Progress in integration and the achievement of a Hayekian interstate federation, thus, does not represent the presence of political consensus. This is not a problem of intellectual maturity, as Hayek contends, but a problem inherent in a diverse union that lacks a strong state and *demos*.

Hayek's argument in favor of interstate federalism proves most appealing in its promise of less government involvement in economic life. Hayek writes that "planning, or central direction of economic activity, presupposes the existence of common ideals and common values; and the degree to which planning can be carried is limited to the extent to which agreement on such a common scale of values can be obtained or enforced."[57] As the heterogeneity of the federation increases, agreement becomes less likely and thus constrains the ability of a diverse federation to plan and enforce policy designs and rules. The Hayekian interstate federation does not identify the absence of a "common scale of values" as problematic. Instead, either "common ideals and values"

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[56] Höpner and Schäfer, "Embeddedness and Regional Integration," 445.

[57] Hayek, "Interstate Federalism," 164.

exist within a federation or they do not exist. This model presupposes the presence of "common ideals and values" rather than providing the interstate federation with the task of building a common political culture. However, the absence of "common ideals and values" proves increasingly problematic in the wake of the Eurozone crisis. The Fiscal Compact, the result of negotiations during the financial crisis, introduced stricter fiscal regulations and constraints on national budget deficits, imposing fines on governments that fail to meet the new regulatory criteria. This solution to the Eurozone's financial woes constrains national government override and breeds further resentment towards supranational measures.[58] The Hayekian model establishes a diverse union that pairs federation with economic liberalization but does not require its state to build political consensus among its members and their constituencies. Without political consensus, the technocratic response to the Eurozone crisis inspired a sense that the fiscal rules imposed by the European-level lacked democratic accountability. This proves as much an indictment of the Eurozone's statelessness as it does the Hayekian failure to establish common political ground between member states.

<u>The Blind Ambition of Ordo-Liberalism</u>

The failure of the Ordo argument to extend its definition of the strong state into the realm of social policy marks a fundamental oversight. Ordoliberalism argues that a free market system requires the preliminary intervention of the state to create and order economic life. Unlike other advocates of the free market system who assume that the self-regulating market delivers

[58] "An ever-deeper democratic deficit," *The Economist*.

freedom, Ordo-liberalism remains skeptical of a free market system divorced from a strong state. Only the unique position of the state, not the market, can safeguard the fundamental rights of individuals and ensure the proper functioning of the free market.[59] However, the Ordo vision of social policy fails to explain European sociopolitical development. In the Ordo market economy, fair competition produces an equitable society.[60] Ordos did not see the need for any extensive elaboration on social policy matters and instead maintained faith in the cash nexus to secure the economic well-being of individuals. Many Ordos offered no guidance for "where the constraints of the market economy intersect with the social conditions required for its functioning."[61] This oversight proves detrimental to the Ordo vision. The rudimentary character of Ordo social policy fails to explain the simultaneous historical development of the free market economy and the growth of welfare state commitments.

The vague character of the Ordo position on social policy, as opposed to the strengthening of European welfare states, evidences the shortcoming of the Ordo political economy that lacks a robust framework for state intervention in economic life. Many scholars argue that the increasing social priorities of the state demonstrate a fundamental deviation from the social market economy model.[62] Norman P. Barry, however, offers that this deviation stems from shortcomings in the Ordo vision rather than any flaw in state development. He writes, "the social aims of the social market economy were sufficiently vague to permit an extension of the

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[59] Hans Otto Lenel, "Evolution of the Social Market Economy," in *German Neo-Liberals and the Social Market Economy*, ed. Alan Peacock and Hans Willgerodt (New York: St. Martin's Press, 1989), 22.

[60] Lenel, "Evolution of the Social Market Economy," 27.

[61] Keith Tribe, *Strategies of Economic Order: German Discourse, 1750-1950* (Cambridge: Cambridge University Press, 1995), 240.

[62] Norman P. Barry, "Political and Economic Thought of German Neo-Liberals," in *German Neo-Liberals and the Social Market Economy*, ed. Alan Peacock and Hans Willgerodt (New York: St. Martin's Press, 1989), 121.

state welfare system while still remaining nominally within [the Ordo] rubric."[63] Barry argues that the end-state features of Ordoliberalism failed to set boundaries to limit state growth.[64] Procedural-liberals, on the other hand, seek to "subject government action to a much wider form of consent."[65] However, Barry's argument that holds the end-state features of the Ordo vision responsible for the massive increase in the social commitments of the state, fails to explain today's climate. While the welfare state and its commitments have expanded in a manner that does not clearly align with the Ordo vision, recent economic changes necessitate an increase in state welfare responsibilities. The growing commitments of the welfare state reflect a change in the economic structure as much as the end-state features of Ordoliberalism.

The Ordo vision proves incompatible with the endogenous changes taking place in modern European welfare states. Several scholars explain the dynamics of the current constraints on European welfare states, revealing the inability of the Ordo vision to address concerns of consumer demand and the challenges presented by private and public sector employment. Paul Pierson rejects the globalization thesis that claims that increasing international trade liberalization weakens the nation-state and necessitates austerity. Pierson suggests that the globalization thesis obfuscates the dynamics taking place within affluent democracies. He argues that the stress facing the welfare state results from endogenous, post-industrial changes. These changes include the service-based employment profiles of affluent societies, the maturation of the welfare state, ageing populations, and radical changes in household structures.[66] These

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[63] Barry, "Political and Economic Thought of German Neo-Liberals," 121.

[64] Barry, "Political and Economic Thought of German Neo-Liberals," 121.

[65] Barry, "Political and Economic Thought of German Neo-Liberals," 121.

[66] Paul Piersen, "Post-Industrial Pressures on Mature Welfare States" in Paul Pierson, ed. *The New Politics of the Welfare State* (New York: Oxford University Press, 2000), 82.

changes, rather than increasing international exchange, have confronted governments with the "trilemma of the service economy":

> "governments and nations confront a three-way choice, or 'trilemma,' between budgetary restraint, income equality, and employment growth. While it is possible to pursue two of these goals simultaneously, it has so far proved impossible to achieve all three. Private service employment growth can be accomplished only at a cost of wage inequality. Therefore, if wage equality is a priority, employment growth can be generated only through employment in the public services sector – at a cost either of higher tax rates or of borrowing (both implying lack of budgetary restraint)."[67]

This conflict between the goals of employment, wage equality, and budgetary constraint results from the changes in the productivity in employment structures. Many attribute the expansion of the service economy to the significant slowdown in economic growth. The gap in productivity between manufacturing and service sectors presents a difficult problem for the welfare state. Studies by Baumol and Bowen concluded that the service sector does not naturally lead to productivity growth.[68] With a higher demand for services, "it becomes increasingly difficult to combine rising wages with lower prices. The virtuous circle between falling prices and rising real demand, as experienced during the expansion of manufacturing employment, is therefore broken."[69] The expansion of the service economy and the need to generate cheap prices and high demand results in lower wages.[70] But, if wages in services were comparable to wages in the manufacturing sector, the private sector would contract "Baumol's cost disease," which would

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[67] Torben Iversen and Ann Wren, "Equality, Employment, and Budgetary Restraint: The Trilemma of the Service Economy," *World Politics* 50 (1998), 508.

[68] Iversen and Wren, "Equality, Employment, and Budgetary Restraint," 511.

[69] Iversen and Wren, "Equality, Employment, and Budgetary Restraint," 512.

[70] Iversen and Wren, "Equality, Employment, and Budgetary Restraint," 512.

slow down employment.[71] Thus, "High growth in market-provided services – necessary to compensate for declining manufacturing employment – therefore presupposes a more inegalitarian wage structure."[72] A better understanding of today's challenges reveals that the most pressing sociopolitical problems do not lie in the rapid expansion of the welfare state and its commitments alone but also in the nature of employment offered in the market today.

The challenges accompanying economic growth in the free market today counter the Ordo vision and its ideal, welfare-maximizing competition. Given the new forms of inequalities introduced by macro-level economic trends, a reinvigorated political conversation on state responsibility for wealth distribution proves essential for the present-day. While Ordos understood the importance of countering state power, they remained largely blind to the need for ongoing state-sanctioned redistribution:

> "Walter Eucken wanted social policy measures to be taken only as subsidiary measures. The competitive system he was striving after was one that would work for social policy aims not only through its efficiency, but also through its respect for human dignity. The individual, however, should be responsible for his own security (for example, in the case of illness or in old age). Only when emergencies or, to go one step further, undesirably large differences in income, cannot be remedied in any other way should redistribution take place primarily by means of progressive tax income."[73]

While the Ordos believed that the individual ought to provide for his own security, there is no state in the European Union that has pursued this ideal. Today's structural problems demonstrate that inequality often falls outside the purview of individual responsibility as individuals are

[71] Iversen and Wren, "Equality, Employment, and Budgetary Restraint," 512.

[72] Iversen and Wren, "Equality, Employment, and Budgetary Restraint," 512.

[73] Lenel, "Evolution of the Social Market Economy," 28.

subject to macro-level changes in the economy. The fundamental change affecting modern European economies includes the productivity of some industries over others which impacts consumer demand and wage levels. While Eucken acknowledges that there exist moments when certain wealth disparities warrant the implementation of a progressive tax, the Ordo view seeks to locate individual well-being predominantly the cash nexus. However, today's climate reveals that the conditions of the market with a dominant service economy necessitates permanent policies on wealth distribution. The economy not only requires the preliminary intervention of the state to design the principles and aims of the free market system as Ordos contend, the economy also requires constant and ongoing state intervention to redistribute wealth. This is antithetical to the Ordo ideal. Present day economic conditions undermine the viability of the Ordo vision and render it obsolete.

Redistribution is not just rudimentary, as Ordos believe, but essential. Unfortunately for Ordos, "social policy would be of very little importance both to the workability of the system and to the principles of economics."[74] Ordos might contend that the modern European welfare state brought upon itself its own problems by expanding welfare state commitments faster than GDP. However, the current trilemma facing European economies arise from challenges posed by the growth of the service economy and Baumol's cost disease. The options of accepting massive inequality in the private sector, something Ordos would not have wanted, or the state taking on responsibility for employment to ensure equality, another outcome Ordos would have found undesirable, shows that Ordos did not adequately integrate social policy into their vision. Social policy proves incongruent with the system of the market economy. Social policy does not merely result from the political demands of citizens. Instead, the economic changes taking place within

[74] Lenel, "Evolution of the Social Market Economy," 29.

Europe require state decision on the trilemma of the service economy. An economy without state action might fail to satisfy consumer needs or expose its citizens to the highly inegalitarian wage structure of the service economy. Ordos believed that an intentionally designed free market system renders redistribution unnecessary. Instead, post-industrial changes in the economy evidence the need not only for a strong constitutional state but also a state that prioritizes its redistributive responsibilities.

Conclusion

Both the Hayekian and Ordo theories of liberalism advocate for the creation of a state to accompany the free market economy. However, Hayekian and Ordo arguments fail to address the primary issues plaguing the currency union today. The depoliticized state in the Hayekian interstate federation offers little in the way of inspiring the political unity Europe desperately requires. A European state must work to establish a set of common values and ideals shared among its *demos*. The Ordos asserted the need for a strong constitutional state to support the free market system. However, contemporary economic changes demonstrate the need for permanent state powers to preside over issues of wealth redistribution as Eurozone members confront an economic reality in which redistributive efforts prove essential. Solving the structural problem of the Eurozone’s statelessness by creating a European federation that does not prioritize political unity and wealth redistribution, proves futile. Such a solution would only widen the existing distance between the technocratic responses created in the wake of the crisis and the politics created by new regulatory regime.

CHAPTER THREE: BUILDING A SOCIALIST CRITIQUE OF THE EUROZONE CRISIS

Introduction

A socialist critique of the Eurozone crisis, like the liberal critique, finds the absence of a European state responsible for the suboptimal performance of the currency union. However, the Eurozone today remains ill-suited to adapt the ideas articulated by socialist critiques. This misfit proves as much an indictment of the Eurozone's structure as it does the ability of socialist thought to address both the economic and political components of the Eurozone crisis. The history of the development of social rights and the creation of the first European welfare states challenges the socialist push for a European-wide social citizenship. As social citizenship does not directly address unsustainable levels of inequality that result from market logic, creating a European-wide social citizenship might fail to adequately address the persisting economic problems plaguing the currency union. Thomas Piketty's groundbreaking book *Capital in the Twenty-First Century*, proposes the creation of political structures capable of imposing a progressive global tax on capital. However, this proposal will only remain a pipedream if unable to ameliorate the non-economic political factors threatening the Eurozone. A viable socialist response to remedy the challenges confronting the currency union must position its ideals within Europe's political and economic realities.

Socialism and Citizenship

The Eurozone ties political unity to the cash nexus, a design that presents a fundamental challenge to building the solidarity on which socialism depends. Participants in the currency union lack a sophisticated sense of European citizenship as European citizenship remains political and not social. While Europeans gained the right to vote in European Parliament elections, issues of taxation and redistribution remain determined at the nation-state level. The establishment of a European monetary policy allows Eurozone member states to continue administering their own social protection programs. Despite the distribution of economic policy-making between the nation-state and supranational level, the Eurozone did not adopt the economic sovereignty lost at the nation-state level with the establishment of the currency union. This vacuum in economic sovereignty creates a disjointed European citizenship that exacerbates the democratic legitimacy problem. Unfortunately, however, fostering a sophisticated European social citizenship does not promise a solution to the persisting economic problems confronting the currency union. The history of the development of social rights warns that the establishment of supranational citizenship alone might not adequately orient a European state towards redistributive efforts.

Sociologist T.H. Marshall's theory of the development of rights illuminates that social citizenship alone cannot address the problem of inequality and distribution that now plague the Eurozone. Marshall's account tells the story of the inevitable evolution and expansion of rights. From civil rights, the right to individual freedom, political rights emerged to protect individual expressions of political power.[75] From political rights, social rights emerged as the right to obtain

[75] T.H. Marshall, "Citizenship and Social Class," in *Class, Citizenship and Social Development: Essays by T.H. Marshall* (New York: Anchor Books, 1965), 78.

a degree of economic security.[76] The attainment of economic security provided "the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society."[77] The responsibilities and obligations of the state grew with each expansion of citizenship rights.[78] Marshall's description of this functionalist progression also tells the story of the addition of new national institutions to support each successive expansion of rights.[79] The due process of the law protects civil rights, an elected political body protects political rights, and educational systems along with social services protect social rights.[80] Currently, the European Union possesses institutions that protect citizens' civil and political rights but not social rights. However, the establishment of European institutions to meet the obligations of social rights might not suffice to address the Eurozone's fundamental wealth distribution problem. Marshall points out the irony that in England, the growth of citizenship occurred simultaneously with the growth of capitalism. Marshall writes, the "Differential status, associated with class, function, and family, was replaced by the single uniform status of citizenship…[and] provided the foundations of equality on which the structure of inequality could be built."[81] The egalitarian notion of citizenship served as a form of class-abatement, creating the foundation to sustain the inequalities produced by capitalism. Thus, socialist efforts

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[76] Marshall, "Citizenship and Social Class," 78.

[77] Marhsall, "Citizenship and Social Class," 78.

[78] Marshall, "Citizenship and Social Class," 115.

[79] Marshall, "Citizenship and Social Class," 78.

[80] Marshall, "Citizenship and Social Class," 78-79.

[81] Marshall, "Citizenship and Social Class," 96.

to establish a deeper European citizenship faces the added task of responding to the deleterious outcomes of market logic.

The history of the first European welfare states similarly reveals the establishment of social citizenship as a means to preserve the capitalist status quo. For example, the goal of German and Austrian social protection before the Second World War sought to limit the development of socialism.[82] Both programs feared unity among the working class and insisted on the unhindered development of market relations.[83] Similarly, Anglo-Saxon and Scandinavian models of social protection did not commit themselves to any politicization of the proletariat. Both the Anglo-Saxon model and the Scandinavian model hoped to preserve a system of private property rights without state interference and sought means for distribution only within the confines of the market.[84] These welfare state models bind labor to the market. The socialist project, however, commits itself to developing a class politics that allows labor to unhinge itself from the market. Both Marshall's theory and the history of welfare state development warn against the assumption that social citizenship can address inequalities produced and sustained through free markets.

Given that social citizenship does not inherently challenge the inegalitarian outcomes of capitalism, any creation of a European state and a European-wide social citizenship must strive to meet the obligations of citizenship outside market exchange. Fred Block and Margaret Somers enumerate the relationship between social citizenship and the free market. They use the term "the

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[82] Gøsta Esping-Andersen and Walter Korpi, "Order and Conflict in Contemporary Capitalism," in ed. John Goldthorpe *Order and Conflict in Contemporary Capitalism* (Oxford: Oxford University Press, 1984), 180.

[83] Esping-Andersen and Korpi, "Social Policy as Class Politics in Post-War Capitalism," 181.

[84] Esping-Andersen and Korpi, "Order and Conflict in Contemporary Capitalism," 181.

contractualization of citizenship" to describe the process whereby the government defunding of social institutions and public goods threatens the ability of individuals to participate in civic life:

> "Citizenship represents a bundle of rights and obligations, especially the rights to those noncontractual supports necessary for full and equal social inclusion in civil society. These rights are the legal glue that binds civil society's noncontractual foundations to its people. They are the necessary elements for the essential freedoms and 'capabilities' that people require to live as equal members of society…When these rights are contractualized, they become subject to the rules of *quid pro quo* market exchange, rules that demand something of equivalent value, usually money or labor."[85]

Governing society only through the rules of supply and demand presents a direct challenge to the social state as many individuals face exclusion from market exchange.[86] Block and Somers argue that public goods available exclusively to those able to pay results in the "'liquidation' of a community's noncontractual foundations."[87] Only by meeting the obligations to the noncontractual foundations of citizenship outside of market exchange can individuals participate as full and equal members in civil society. Social citizenship proves essential to the social order because it strengthens the connection between the individual and the state. Those who argue that citizenship should be treated "as a contractual quid pro quo market relationship," perpetuate a kind of market fundamentalism.[88] Block and Somers discuss the disastrous effect of the contractualization of citizenship on "people who have little of value to exchange. With few skills and a deficit of cultural capital, there is no demand for their services, and thus no right to full

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[85] Fred Block and Magaret R. Somers, *The Power of Market Fundamentalism: Karl Polanyi's Critique*, (Cambridge, Massachusetts: Harvard University Press, 2014), 111.

[86] Block and Somers, *The Power of Market Fundamentalism*, 113.

[87] Block and Somers, *The Power of Market Fundamentalism*, 111.

[88] Block and Somers, *The Power of Market Fundamentalism*, 111.

citizenship. They are, in effect, internally stateless."[89] The cash nexus cannot secure the right to full citizenship as it results in exclusion and denies many individuals a state. Following Block and Somers' argument, the Eurozone not only requires a state, it requires a state that will create European civic life outside the common market.

The establishment of a European social citizenship might deepen the political commitment of members and their constituencies to the European Union. However, many economic factors plague the Eurozone in addition to its problem of political commitment. The economic health of core member states compared with peripheral member states reveals that the currency union sustains massive inequities between its members. As *The Economist* argues, government-debt did not cause the Eurozone crisis: "The problem, instead, was one of massive capital flows across borders, which encouraged high levels of private borrowing in the economies that eventually got into trouble."[90] In addition to its public debt crises, the Eurozone must offer a solution to fix the problem of capital flow within its borders. Piketty's research also identifies the long-term trends of markets that generate a high rate of return on capital in periods of slow economic growth.[91] The establishment of a European social citizenship might offer the currency union a level of political protection during its next crisis but will not sufficiently address these economic challenges.

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[89] Block and Somers, *The Power of Market Fundamentalism*, 191.

[90] "The euro-area crisis was not a government-debt crisis," *The Economist*, November 23, 2015, http://www.economist.com/blogs/freeexchange/2015/11/disagreement-europe.

[91] Piketty, *Capital*, 27.

Piketty and his Progressive Global Tax on Capital

Piketty's proposal for a progressive global tax on capital falls short in creating the politically legitimate state institutions required to support such a utopian vision. Piketty's account of the long-term evolution of wealth finds that the capitalist form naturally produces unsustainable levels of inequality that inevitably yield crises. He asserts that the "private rate of return on capital *(r)* can be significantly higher for long periods of time than the rate of growth of income and output *(g)*."[92] The past forty years have seen a massive increase in private wealth. In 2010, the total value of private wealth represented between four and seven years of national income, whereas private wealth represented only two to three and a half years of national income in 1970.[93] The task of the state in the twenty-first century appears self-evident to Piketty: the state must reign in capital. However, in order for a European state to begin reigning in capital, it must grapple with European politics in their present form.

The element of European political culture supporting Piketty's vision remains wholly fictitious. Piketty suggests that modern democracies imagine new political institutions for financial regulation.[94] Only democratic deliberation, Piketty argues remains suited to answer questions regarding the state's role in wealth distribution.[95] A progressive global tax on capital would bring about a political culture able to "promote the general interest over private interest" and would preserve a healthy competition able to maintain "economic openness and the forces of

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[92] Piketty, *Capital*, 571.

[93] Piketty, *Capital*, 173.

[94] Piketty, *Capital*, 472.

[95] Piketty, *Capital*, 480.

competition."[96] This kind of approach orients itself towards the establishment of both a political culture and market mechanisms to maintain competitiveness. Piketty attempts to offer a structural solution to the problem of unsustainable wealth inequality in the form of his progressive global tax on capital. Unfortunately, Piketty's solution relies on understanding European politics as they might be rather than European politics as they are.

The proposal for a European state to impose a progressive global tax on capital does not adequately consider that greater fiscal solidarity presupposes European political cohesion. However, Piketty's employment of inequality as a lens through which to view the most recent crisis strives to understand the political and market elements necessary to achieve a solution for Europe.[97] While Piketty views inequality as an indictment of both market logic and modern democracy, his proposal to ameliorate inequality does not orient itself towards Europe's political challenges. Inequality emerges not *contrary* to market efficiencies and logic but *because* of market efficiencies and logic. This necessitates a new political debate regarding state intervention in the economy. Piketty's approach assumes that the state must respond to the deleterious outcomes of free markets, yet he does not assume that the state also requires mechanisms to respond to the deleterious non-economic political factors facing the Eurozone today. The Hayekian interstate federation has produced political disaffections that now impinge on the ability to engage in the necessary democratic deliberation Piketty's questions on redistribution require. Macro-level inequities between member states breeds political disenchantment with the currency union. Xenophobic and fascist responses to the migrant crisis signal the successful rise of right-wing populism and the politics of fear associated with

[96] Piketty, *Capital*, 471.

[97] Piketty, *Capital*, 473-474.

increasing political and economic insecurity. European integration as an effort to aid cooperation between traditionally hostile countries still faces the political challenge of persisting resentment towards the Germans. Ngaire Woods writes, "the European Stability Mechanisms, for its part, is less a sign of European integration than of continued German dominance… the markets assume that the European Stability Mechanism will reflect Germany's intentions, and the Eurozone governments know that there will be negative repercussions at any hint that Germany disapproves of a loan."[98] Unfortunately, Piketty's economic solution remains too far removed from contemporary political circumstances to be considered anything other than exceptionally utopian.

Understanding the development of these non-economic political challenges clarifies how Piketty's solution falls short. While an increased sense of socioeconomic insecurity has created a political context favorable to populist ideology and tactics, populism does not arise exclusively from socioeconomic insecurity. One scholar of European populism cautions against the ubiquity of explanations that portray the rise of the populist right as "a passive consequence of macro-level socioeconomic development."[99] While macro-level socioeconomic developments are essential considerations when discussing the rise of right populism in Western Europe, they are not sufficient in themselves to supply a complete explanation for the successful rise of populist right radical parties. The increasing sense of political and economic uncertainty created by macro-level socioeconomic patterns in Western Europe such as globalization, increased immigration, and post-industrialization, has not necessitated populist right politics, but has

[98] Ngaire Woods, "The European Disunion: How the Continent Lost Its Way," review of *The Politics of Everyday Europe: Constructing Authority in the European Union*, by Kathleen R. McNamara, *Foreign Affairs*, January-Februrary 2016, https://www.foreignaffairs.com/reviews/2015-12-14/european-disunion.

[99] Cas Mudde, "Three Decades of Populist Radical Right Parties in Western Europe: So What?," *European Journal of Political Research* 52 (2013): 4, doi: 10.1111/j.1475-6765.2012.02065.x.

created a favorable context in which right populism can flourish. Populism thickens socioeconomic fear, a sense that the current political system is illegitimate, and a sense that the ordinary voter is under attack by the corrupt political elite and the immigrant. Through understanding the trends of the development of populist success in Europe, it becomes clear that populist politics operate within an economic context but do not discretely relate to economic conditions alone.

Piketty's history of inequality over time offers new knowledge to better understand the logic of markets. His account lays out the fundamental contradiction of capitalism and the intolerable levels of inequality it produces. The task of politics, however, remains somewhat vague in his account, even if it is understood as essential. The proposal for a progressive global tax on capital attempts to rectify the the condition of internal statelessness Block and Somers observe. However, a fiscal union housed in a European state will not yield fiscal or political solidarity if it only addresses the most recent crisis as a crisis of capitalism and not a crisis of European politics.

Conclusion

Unlike the liberal critique of the Eurozone crisis, socialist critiques that call for the establishment of a European state imagine social citizenship and redistributive efforts as primary responsibilities of the European polity. Unfortunately, the incomplete character of socialist solutions renders them difficult for the European Union to adopt. The egalitarian ideals of Socialist calls to establish a European-wide social citizenship do not directly address the problems derived from macro-level economic circumstances. Piketty's progressive global tax on capital relies on the fiction of a European political community. This presents a fundamental challenge since the creation of European political cohesion presupposes the enactment new forms of financial regulation. Reigning in capital on a European scale appears unfeasible at a time when Europe proves greatly divided.

Perhaps Piketty and Hayek share the mistake of imagining solutions and structures without considering the politics they produce or the politics that presently exist in Europe. While Hayek does not concern his model with building a common set of European values and ideals, Piketty mirrors Europe's founding fathers by relying on the fiction of a European community. The interrelationship between the economic and political factors plaguing the currency union threaten this assumption of a strong European community. A recent article argues that

> "the really disconcerting thing is that while the crisis response…reduced the threat of scenario in which a market panic causes the ejection of a member country, it reinforced the macroeconomic rigidity of the single-currency area…If the euro-area is now safer from markets than it was pre-crisis, it is more vulnerable to the political backlash that will inevitably result, in one country or another, at some time or another, when the strictures of Europe's monetary union become too painful to put up with any longer."[100]

Given this European political-economic dialectic, should the union and its members fix Europe as it is or imagine Europe as it ought to be?

The shortcomings of socialist approaches to social citizenship and wealth redistribution indicate the need for a more sophisticated theoretical and practical understanding of a socialist relationship between the state and the cash nexus. Fixing Europe as it is addresses the post-crisis economic realities but only formulates short-term solutions that will ultimately prove politically unsustainable. Imagining Europe as it ought to be offers new political institutions but does not

[100] "The euro crisis was not a government-debt crisis," *The Economist*.

grapple with the democratic deficit and legitimacy crisis whose politics limit efforts to establish new institutions. Europe might not be politically prepared for the kind of democratic deliberation Piketty deems necessary to address how the individual, the state, and the economy ought to preside over the challenges of inequality. However, Piketty's insistence on constructing a logic of rights appropriate for the 21st century seems particularly pressing for Europe's stateless currency union. He argues democracies must discuss

> "the means of effecting real improvement in the living conditions of the least advantaged, the precise extent of the rights that can be granted to all (in view of economic and budgetary constraints and the many related uncertainties), and exactly what factors are within and beyond the control of individuals (where does luck end and where do effort and merit begin?). Such questions will never be answered by abstract principles or mathematical formulas. The only way to answer them is through democratic deliberation and political confrontation. The institutions and rules that govern democratic debate and decision-making therefore play a central role, as do the relative power and persuasive capabilities of different social groups."[101]

Socialism must answer these questions to sustain the noncontractual foundations of citizenship while also creating a state that can avoid the historical trappings of the command economy. A response to the crisis must preserve the rationality of the free market system while strengthening Europeans' sense of statehood. Just as Piketty grapples with the fiction of markets as welfare-maximizing, any thinker proposing a solution to the current crisis must also grapple with the fiction of a European community. It is essential to understand how markets pose a threat to European democracy but it is becoming increasingly apparent that one must also understand the shortcomings of the traditional ways of imagining a European *demos*.

[101] Piketty, *Capital*, 480-481.

CONCLUSION

This thesis began by asking why the Eurozone's highly rules-based nature and thick regulatory framework produced a suboptimal currency union. The absence of a state to accompany the currency union largely accounts for the distance between the rules of the Eurozone and its economic and political performance. Without a state, achieving fiscal solidarity within the union confronts the added challenge of attaining political legitimacy among its members and their constituencies. The absence of a European state also reflects shortcomings in the major theories of political economy. Liberalism envisions a European state but does not incorporate building political consensus and strengthening the social policy responsibilities of the state. The socialist conception of a European state also falls short. Establishing a European social citizenship does not inherently address the deleterious outcomes of the unfettered market. Similarly, the call for a progressive global tax on capital does not ameliorate the non-economic political factors threatening the Eurozone. Both theories of political economy present incomplete or insufficient proposals for a workable political-economic dialectic to match Europe's present-day climate.

The crisis of the currency union remains one among many uncertainties facing Europe. Given that the crisis facing Europe extends beyond the economic, does the relationship between structural shortcomings of the European Union and the shortcomings of political and economic theory provide a deeper understanding of a variety of Europe's challenges? In other words, does the relationship between the currency union and the theories of political economy mirror other elements of the larger crisis facing Europe? Just as the performance of the currency union defies its thick regulatory and rules-based framework, does the illegitimate appearance of European democracy defy the democratic practices in place? For example, "Why is there still a democratic deficit in the EU, despite the presence of a directly elected European Parliament that has seen its powers repeatedly increased over the years?"[102] Perhaps the answer to these questions lies in the mismatch between the Europe envisioned by the drafters of the union's guiding treaties and a European solidarity that remains in its nascent stages. The regulatory framework, fiscal rules, and democratic practices of the EU operate within a European political community that remains fictitious and symbolic.

A recently published account of European citizenship demonstrates an unexamined confidence in the success of European integration and its political community. In her book *The Politics of Everyday Europe*, Kathleen R. McNamara asserts that everyday European symbols and practices legitimize the European Union. She argues that the Eurozone's successful survival of the financial crisis evidences successful European integration. Unfortunately, McNamara's account seems more steeped in idealism than invested in a critical reading of the anti-European sentiment emboldened by the crisis. Rather than demonstrating the naturalization of European governance, the Eurozone's survival illustrates that the founding fathers' European superstate remains more far-fetched than ever. McNamara, however, argues that the survival of the crisis would have been impossible "were it not for 'decades of slow accumulation of everyday symbols…[T]he quiet introduction of European 'labels, mental maps, and narratives' has built a European way of interpreting the world."[103] For McNamara, the development of "labels, mental maps, and narratives" trumps the threat posed by the economic challenges during the crisis years. Ngaire Woods who reviewed McNamara's book reminds the Euro-optimist that "the growth of

[102] Dr. Julie Smith, "The Politics of Europe 2014-2015," PPS Pol 8 course syllabus, University of Cambridge.

[103] Ngaire Woods, "The European Disunion."

the EU has gone hand in hand with demands for autonomy within it."[104] McNarmara's account exemplifies the symbolic character of the European political community as imagined by European federalists. Unfortunately, the optimism of such an account ignores that Europeans do not seem ready to adopt any kind of superstate.

Not only does the European political community remain more fictional than politically powerful, the persisting character of the federalist vision seems to lack any kind of tangible relevance to many Europeans. After meetings in February on the UK's membership in the European Union, UK Prime Minister David Cameron celebrated the newly won British exemption from the commitment to "ever closer union."[105] A recent article from *The Economist* called the celebration odd.[106] The phrase "ever closer union," first drafted in 1957 during the establishment of the European Community, represents a relic of treaty language rather than an imminent threat to nation-state sovereignty. Any assault the UK exemption from "ever closer union" poses to the European federalist vision seems inconsequential. "The migrant crisis has tugged at European unity like nothing before… It is this, rather than a trio of fine words in an increasingly threadbare document, that should trouble the federalists."[107] The celebration of the UK opt-out only highlights that the fight over Europe appears distant from the problems plaguing the Union. "Mr Cameron brag[ged], as he did to the House of Commons this week, that thanks to his deal Britain will never become part of a 'European superstate' that no one is trying to

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[104] Ngaire Woods, "The European Disunion."

[105] "Ever farther union," *The Economist*, February 27, 2016, http://www.economist.com/news/europe/21693620-principle-ever-closer-union-died-long-britain-demanded-exemption-ever-farther.

[106] *The Economist*, "Ever farther union."

[107] *The Economist*, "Ever farther union."

build."[108] The enigmatic nature of both the Euro-federalist and Euro-skeptic response highlights that the debate between European federalists and their opponents remains largely abstract. The battleground on which these two camps fight appears impertinent to developing a European ability to respond to the political and economic challenges that confront the Union. So long as interpreters of Europe's present-day crises continue to define the political and economic stakes in symbolic terms, Europe will fail to take the action necessary to remedy its current instability.

In employing socialist and liberal critiques of the Eurozone crisis, this thesis assumes that establishing a clearer relationship between the state and the economy in Europe proves essential to confront the Eurozone's challenges. Because this fundamental relationship between the state and economy remains ambiguous in the currency union, its crisis held ramifications that extended far beyond its economic outcomes. In addition to the economic woe produced by the crisis, the economic collapse exacerbated the political resentment of European citizens and fueled tensions between Eurozone members. While this thesis grappled with the breakdown of the relationship between the state and the economy, to better interrogate a viable European political-economic dialectic requires an investigation into the potential character of a European state.

The challenge remains reconciling the theoretical propositions of political economy with the political and economic realities of Europe. The monetary policies of the Eurozone have too often proven harsh impositions on Eurozone member states beginning to question the advantages they receive from participating in monetary union. Timothy Garton Ash wonders if the monetary union's goal of European unification only serves to undermine the more viable establishment of a liberal order. He writes, "today it is precisely the forced march to unity–across the 'bridge too

[108] *The Economist*, "Ever farther union."

far' of monetary union–that is threatening the very achievement it is supposed to complete."[109] For Ash, the common currency represents a fundamental loss for Europe. By imposing forced unity onto nation-states, European economic and political union obstructs the possibility for achieving a less politically tumultuous liberal order in Europe. It seems Europe must confront a fundamental trade-off: maintain the Eurozone by pursuing a deeper political unity that appears largely unfeasible given the political disaffection produced by the crisis, or return to nation-state control of monetary and fiscal policies.

Perhaps there exists a third way. Despite the abundant challenges to the prospect of establishing a federal European polity and *demos*, Europe finds itself at a critical juncture that offers an opportunity for fundamental transformation. Just as the postwar European climate proved favorable to pursuing new political and economic structures to integrate Europe, perhaps the present moment provides a context in which to reimagine the European future. Given the Union's diversity of membership and Europe's increasing immigrant and refugee population, some argue that European leaders must challenge their vision of Europe as monolithic.[110] The federalists will prove no better than the populists if they remain attached to a vision of Europe as homogenous. A recent study argues that a *demos* that honors the internal diversity of the union requires a new model outside the traditional understanding of the *demos* of the nation-state.[111] Creating a European *demos* not only requires reimagining the ideal vision of Europe as

[109] Timothy Garton Ash, "Europe's Endangered Liberal Order," 63.

[110] *The Economist*, "Ever farther union."

[111] Daniel, Innerarity, "Does Europe Need a Demos to be Truly Democratic," *LSE 'Europe in Question' Discussion Paper Series* (2014), http://www.lse.ac.uk/europeanInstitute/LEQS%20Discussion%20Paper%20Series/LEQSPaper77.pdf.

monolithic but also requires reimagining how a *demos* can achieve political power in an unorthodox political and economic structure such as the European Union and its single currency. The creation of a European identity remains crucial as one scholar so powerfully called "democracy an imposition in the absence of identity."[112] European integration requires political will and does not promise an inevitable European survival. "The European project will continue so long as Europeans want to participate."[113] The regulatory framework of the EU and its currency union remain thick but a commitment to European identity formation and developing a European political consciousness proves unfortunately thin. Perhaps by imagining Europe outside of the traditional monolithic constructions of the federalist vision, Europe might finally discover a peaceful ground where it can accomplish the political task of bridging its utopian ideals and their suboptimal structures.

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[112] Christopher Lord and David Beetham, "Legitimizing the EU: Is there a 'Post-Parliamentary Basis' for its Legitimation?," *Journal of Common Market Studies* 39 (2001): 444, doi: 10.1111/1468-5965.00298.

[113] Erik Jones, "The JCMS Annual Review Lecture: European Crisis, European Solidarity," *Journal of Common Market Studies* 50 (2012): 56, doi: 10.1111/j.1468-5965.2012.02272.x.

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