

# The Immanent Potential of Economic and Monetary Integration: A Critical Reading of the Eurozone Crisis

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The Eurozone crisis revealed fundamental flaws in the institutional architecture of the Economic and Monetary Union. Its lack of political steering capacity has demonstrated the need for a broad but seemingly unachievable political union with shared economic governance and a common treasury. Agreement on further measures has been difficult to achieve, as different actors have imposed divergent external criteria for the success of the Eurozone. As part of their heritage in Western Marxism, the critical theorists of the Frankfurt School sought to overcome such problems by identifying internal standards for social criticism. Building on their understanding of immanent critique, I argue that the Eurozone already contains the normative principles necessary to support greater political integration. While the citizens of Europe must provide the democratic legitimation necessary to realize this latent potential, the flaws revealed by the crisis are already pushing Europe towards greater transnational solidarity.

Starting in the fall of 2007 the world experienced the greatest economic downturn since the Great Depression. The so-called Great Recession began as a subprime mortgage crash in the United States, leading to the collapse of global financialized capitalism.

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By 2010 the contagion had shifted across two dimensions: what had started in the American private sector had moved across the Atlantic and into the public domain.<sup>1</sup> The result was a monetary, banking, and sovereign debt crisis among the member-states of the European Union (EU) that share its common currency, the euro.

Responsibility for the crisis of the Eurozone can be divided into three parts. Actors in the northern core, whose investors financed irresponsible borrowing and whose leaders sought to protect these interests, as well as in the southern periphery, which took advantage of low interest rates to bankroll unwise investments, share the blame for the proliferation of bad loans. The fact that this behavior took place within the faulty architecture of the Maastricht Treaty (1992), which created the Economic and Monetary Union (EMU) as a currency without a treasury and a common market without shared economic governance, turned these actions into a global crisis.<sup>2</sup>

On a structural level, the inability of the southern states to devalue a currency outside their control confronted them with the risk of sovereign default. In response to attacks by globalized financial markets, crisis-ridden governments were forced to adopt austerity to regain their competitiveness while facing ever-higher interest rates on their bonds. Successive infusions of capital—financed in part by taxpayers from the north—sought to lower interest premiums on southern bonds while protecting the investments of northern banks. However, this policy merely converted private liabilities into public debt.<sup>3</sup>

The “flaws in the construction of the single currency”—combined with the international dynamics of financialized “casino capitalism”—brought on what Claus Offe calls “a crisis of crisis management.”<sup>4</sup> Instead of working together to address shared problems, “each country [has defended] its own interests while attempting to benefit from ‘free-rider’ tactics.”<sup>5</sup> Because policy repertoires have been recycled without addressing the underlying causes of the crisis, the citizens of the Eurozone trust neither national governments nor European authorities to address the problems of the euro.

The Eurozone crisis has also had a significant impact on the functioning of the EU. It has raised the profile of heads of governments and national parliaments, “highlighting the importance of domestic politics as a constraint to the creation of joint supranational transfer mechanisms.” By questioning the “permissive consensus” supporting integration and reinforcing its intergovernmental aspects, these events have threatened the EU as “an ongoing experiment with new forms of governance outside the nation-state.”<sup>6</sup>

The increasing demand for fiscal transfers and the conditionality linking bailouts to reforms in domestic welfare policies has reinvigorated debates about Europe’s democratic deficit.<sup>7</sup> Recent events have revived traditional forms of Euroscepticism. They have also given rise to a new generation of what I call “euro-skeptics” seeking to repatriate control over monetary policy.<sup>8</sup> Unlike those who oppose integration based on emotion or ideology, opponents of the common currency contend that support for the EMU “should not derive from any theoretical or normative belief . . . but must be assessed on the basis of practical cost/gains analysis.” These critics do not oppose the euro or the EU as such, but rather “the ‘dogma’ of an ever closer union.”<sup>9</sup>

In contrast to traditional Eurosceptics, who tend to draw on conservative and nationalistic principles, these new “euro-skeptics” hail from both the right and the left. Many of these empirical detractors of euro are political economists, who point to the fact that the EMU is not an optimum currency area. They argue that the Eurozone cannot benefit from a common monetary policy because it lacks both a political union with fiscal transfers and sufficient labor mobility to smooth out the differences in economic performance between the member-states.<sup>10</sup>

Commenting on these events, Jürgen Habermas observes that the EU is “trapped in the dilemma between, on the one side, the economic policies required to preserve the Euro and, on the other, the political steps to closer integration.” Similarly, Offe notes that “the mismatch between what is economically necessary and what is politically feasible can be seen on both sides of Europe’s north-south divide.”<sup>11</sup> The crisis of the Eurozone thus presents the peoples of the continent with a choice: either dismantle the EMU by repatriating monetary policy to the

member-states, or “significantly increas[e] the degree of political union” through “greater centralization and political unification.”<sup>12</sup>

Using the approach to immanent critique developed by the Frankfurt School, I argue for the latter course of action. In order to overcome the resistance individuals feel to values that are imposed from the outside, the thinkers associated with the Institute for Social Research (*Institut für Sozialforschung*) developed a form of analysis that “immanently criticize[s] a given social order in terms of how adequately it measures up to the standards . . . it presupposes.” These critical theorists argue that when existing socio-political structures cease to function smoothly—as they have in the crisis of the Eurozone—the object of critique identifies itself as a social pathology. In the words of Theodor Adorno, “Immanent criticism is never solely purely logical but always concrete as well—the confrontation of concept and reality.”<sup>13</sup>

I build on this approach to argue that further integration towards a banking and a fiscal union can help realize the underlying principles of the EMU. The euro was designed to limit the influence of a reunified Germany by replacing the continent’s dominant currency and central bank—the *Deutschmark* and *Bundesbank*—with equivalents under joint European control. The EMU has failed spectacularly in fulfilling this normative objective, as the common currency regime has catapulted the Federal Republic “into the position of the undisputed great power in Europe as a whole.”<sup>14</sup>

Drawing on the method of immanent critique, the Frankfurt School developed a two-step approach to critical theory that starts with a “crisis diagnosis” followed by “anticipatory-utopian” reflection on how social actors can emancipate themselves from the pathologies of the present.<sup>15</sup> Using this approach, I argue that the peoples of Europe must further their “experiment with new forms of governance outside the nation-state” in order to effectively confront powerful international markets that have been able to dictate policy to sovereign states by demanding ever-larger interest rates on government bonds. In order to do so the citizens of the EU will have to reassert their democratic authority vis-à-vis supranational and national elites, as well as international economic actors.<sup>16</sup>

The argument starts by reflecting on the use of political theory as a way of analyzing contemporary developments. I then present a genealogy of immanent critique, showing how the thinkers of the Frankfurt School adapt this method to create a distinctive form of theoretical analysis. In this system, a critical “diagnosis of the times” (*Zeitdiagnose*) is followed by reflection on the social action necessary to overcome the problems identified.<sup>17</sup>

The rest of the argument follows this two-step schema. In the third section, I therefore deploy immanent critique

in its “explanatory-diagnostic” function. I engage in categorical critique to show how the problems of the Eurozone have pushed Europe towards a *de facto* political union in order to resolve the “contradiction[s] at the heart of the present.”<sup>18</sup> In addition to undermining the very concept of a common currency area, I also use normative critique to show that the EMU has failed to fulfill its broader social goal of democratizing German power over its neighbors.

The gradual narrowing of the distance between the economically necessary and the politically possible has left Europeans in what G.W.F. Hegel calls “a state of unthinking inertia.” As a method of exposing internal contradictions in social praxis, *immanent* critique does not imply that social change is *imminent*. Instead, it provides the groundwork for combatting this complacency with “critical participation and appropriate action.”<sup>19</sup> In part four I therefore shift to the “anticipatory-utopian” stage of critique, arguing that Europe needs to create stronger institutions under the democratic control of the European public to fulfill the full potential of the EU as a postnational form of politics.<sup>20</sup> I conclude by reflecting on the dangers of relying too heavily on economic integration.

### *Political Theory, Integration, and “Real” Politics*

It may seem strange or counterintuitive to use political theory to address issues that are usually discussed using economic terms. However, the crisis of the Eurozone touches on many of the most important theoretical questions in political science, including the relationship between politics and economics, the dynamics of democratic politics, the distribution of power within society and the decline of sovereignty in an age of globalization. The basic choice between further integration and retreat—though often framed in economic terms—is eminently political.

In addressing a political crisis by deploying the method of immanent critique, my argument is part of a broader move towards “problem-driven research” in political theory. The subfield’s traditional focus on the timeless questions of politics and its reluctance to address “questions of method and approach” have gradually given way to an interest in methodology and the connection between political developments and normative theory.<sup>21</sup> These trends have coalesced around the movement known as political realism, which seeks to “mak[e] a constructive contribution to politics.”<sup>22</sup>

Political realists and other theorists pursuing problem-driven research have sought to take the “circumstances of politics” into account by focusing on institutions as the primary site of political action.<sup>23</sup> Although I share many of the goals of political realism, my analysis builds on the politically-engaged, problem-driven work of the Frankfurt School. The thinkers associated with this tradition draw on

immanent critique to develop an approach to social criticism that proceeds from crisis diagnosis to practical reflections on the changes that are needed to create more emancipated forms of life.

Studies of the EU are particularly good examples of “the need for bridging empirical and normative analysis.” In addition to critical theory’s two-stage approach, there are many other ways to analyze the euro-crisis from a theoretical perspective.<sup>24</sup> For example, Alessandro Ferrara has adopted an approach based on John Rawls’s conception of public reason to show that the debates over the failed Constitutional Treaty displayed a nascent European identity capable of supporting further integration.<sup>25</sup>

In a similar vein, Glyn Morgan has identified joint security as a legitimate justification for the EU. Such lines of inquiry have been spurred by the publication of an exchange of letters between Rawls, who takes a traditionally Eurosceptical position, and Philipp Van Parijs over whether the EU qualifies as a “realistic utopia.” Unfortunately, as Beate Sissenich points out, such Rawlsian approaches tend to “*assum[e] away* difference instead of engaging it.”<sup>26</sup>

Pierre Manent, a noted skeptic of integration, criticizes the EU based on his reading of the history of political thought. Surveying the philosophical literature, Manent claims that there are only three stable forms of political community: the self-sufficient city, the sovereign state, and the universalistic empire. He sees the EU as a mixed polity forever caught between state and empire, between claims to sovereignty and aspirations to universalism.<sup>27</sup>

Manent connects this conclusion to the contemporary crisis by arguing that Europe is experiencing a crisis of governance. He contends that a definitionally unstable polity like the EU can function neither as a sovereign government nor as an imperial metropolis. As a result, it ends up with “rules elaborated by an indefinite number of bodies and agencies responsible to no one.” As part of the crisis these technocratic bodies, which pride themselves on “their expertise and ‘competence,’” have become “rightly discredited” along with the “idea of governance” beyond the state. For Manent, solution is clear: “The illusions of ‘governance’ gone, government returns to its place” with the nation-state once again taking priority over supranational organizations.<sup>28</sup>

In addition to Manent, one of the most forceful proponents of a return to the nation-state is Wolfgang Streeck, who proceeds from a sociological perspective that crosses the empirical/theoretical divide. In contrast to categories provided by Manent’s intellectual history, Streeck looks back to the lessons of the *Wirtschaftswunder* (“economic miracle”) and the *trente glorieuses* (“glorious thirty”) spanning the period from 1945 to 1975. This examination of Europe’s golden age leads Streeck to conclude that monetary policy must given back to the nation-states that enabled Europe’s postwar prosperity in the first place.<sup>29</sup>

Streeck is a particularly interesting foil for my argument given his background in critical theory and his surprisingly rancorous public debate with Habermas. While Streeck and Habermas agree on their basic diagnosis of the problems of the euro, they disagree about whether this requires pulling back or pushing forward with integration.<sup>30</sup> Their approaches to this problem are also at odds. Whereas Habermas proceeds from an immanent critique of the present, Streeck argues for a return to the successful practices of the past.

My argument follows Habermas, both in style and substance. Compared with Streeck's historical analysis and other external approaches to the "normative turn" in European Union Studies, immanent critique has two distinct advantages.<sup>31</sup> First, by evaluating social structures against their own standards, it avoids accusations that the criteria of judgment are "partial, reflecting the history and tradition of a particular society or group." Second, by demonstrating to social actors that they are not living up to their own ideals, it is more likely to provide them "with some degree of motivation to follow [their own values] and to sanction compliance."<sup>32</sup>

Streeck's position assumes that it is still possible to return to the practices of the postwar economic boom, where the nation-state was able to use its sovereign powers to exercise control over global market forces. However, there is much empirical evidence tracing the decline of sovereign power. Over the course of the twentieth century "the nation state has rapidly become an unnatural, even dysfunctional, unit . . . [with neither] the tools nor the political base to play an effective role."<sup>33</sup> As a result, "the pattern of influence and decision-making that rules the world has an increasingly marginal connection with sovereignty."<sup>34</sup>

This "multifaceted erosion of sovereignty is a momentous change," which has led to the search for new concepts to describe the decision-making capacity previously associated with this term.<sup>35</sup> Whereas political theorists increasingly think in terms of "legalization," international lawyers have turned to "fragmentation" and "constitutionalization" to capture this transformation.<sup>36</sup> Even when it is used, sovereignty has been redefined in functionalist terms. Instead of describing the Weberian "*monopoly of the legitimate use of physical force within a given territory*," sovereignty now often refers to the state's obligation to "preserve life-sustaining standards for its citizens."<sup>37</sup>

These changes "simply leav[e] no room for any valid notion of the state." This trend is most pronounced in Europe. The creation of the EU as a supranational entity with independent decision-making powers that lie outside the constitutional infrastructure of the member-states has rendered the continental "nation-state hollow and its institutions meaningless."<sup>38</sup> As a result, it is difficult to see the European state as the solution for reasserting the

power of democratic popular sovereignty vis-à-vis international markets and globalized financial capital.<sup>39</sup>

In the next section, I detail the Frankfurt School's approach to immanent critique. I then apply this method to the crisis of the Eurozone. In contrast to Streeck, I argue that the only way to reassert the democratic power of the European peoples is to extend integration beyond the nation-state.

## Critiquing from Within

Social criticism can be based on at least three distinct approaches: the *normative discovery* of objective standards, the *constructivist invention* of criteria or the *hermeneutic interpretation* of already accepted norms. Immanent critique crosses the boundaries of the latter two categories. As a form of reconstructive argument, it seeks to discover criteria for criticism through a *constructivist interpretation* of the internal norms of a social practice. The critic is thus "engaged in a form of critique that aims to employ normative potentials . . . [that] transcend the agreed-upon norms of a society, but are, in some way or another, nevertheless already 'immanent' in social reality."<sup>40</sup>

The critical theory developed by the Frankfurt School starts from the conviction that "apolitical reflections on praxis are unconvincing." Despite their differences, thinkers such as Theodor Adorno, Max Horkheimer, and Herbert Marcuse agree that a critical social and political theory must maintain a commitment to what Habermas calls the "embedding of theoretical accomplishments in the practical contexts of their genesis and employment."<sup>41</sup> This persuasion led the Frankfurt Circle to adopt immanent critique as a central pillar of their interdisciplinary research program.

Internal criticism has a rich genealogy. Although it has its origins in ancient Greece, where Socrates sought to show his fellow Athenians that their ideas were internally incoherent, it gained renewed salience in the aftermath of the French Revolution, "when situation-transcendent ideas for the first time became forces [capable of] spearheading the transformation of the existing state of society."<sup>42</sup> Most importantly, Immanuel Kant drew on immanent critique in order to redirect "the liberal notions of freedom and equality which had emerged in response to the growth of state power against political domination and inter-state violence."<sup>43</sup>

A generation later, Hegel modified Kant's "critical philosophy," arguing that social reality becomes "immanently rational" when universal moral rules are actualized within concrete institutions. For Hegel, immanent critique ensured the relevance of theoretical reflection for the present:

The refutation must not come from the outside, that is, it must not proceed from assumptions lying outside the system in question and inconsistent with it . . . . The genuine refutation must penetrate the opponent's stronghold and meet him on his

own ground; no advantage is gained by attacking him somewhere and defeating him where he is not.<sup>44</sup>

Building on Hegel, Karl Marx gave this form of critique a materialistic dimension by focusing on political economy and the contradictions in existing relations of production: “Remaining true to Hegel’s method of immanent critique, Marx . . . maintains that the historical process will generate its own critical standards.” He also turned immanent critique into a method of social change. Seyla Benhabib points out that for Marx, “the function of critique is not therapy and healing the wounds of the ethical as in Hegel’s case, but ‘crisis diagnosis’ enabling and encouraging future social transformation.”<sup>45</sup> This move gives immanent critique its practical bite.

The thinkers associated with the Frankfurt School inherited the praxis-oriented form of social criticism found in Marx’s early writings, which “delimits the field of radical social criticism and change, and at the same time posits criteria both for rationality of criticism and desirability of change, *without* reference to anything transcendent to history.” Given the value pluralism brought about by the onset of modernity and industrialization, the Frankfurt Circle seeks to “circumvent a skeptical spurning of value judgments without succumbing to normative dogmatism.” Horkheimer argues that this can be achieved “*by relating social institutions and activities to the values they themselves set forth as their own standards and ideals.*”<sup>46</sup>

Unlike other modes of social criticism, which are based on external normative perspectives, immanent critique is rooted in social praxis: “On the one hand, critical theory and the critical theorist are rooted in, emerge out of, and are shaped by existing social reality; on the other hand, the critical theorist cannot accept existing social reality as it is but must instead critique and even condemn it.”<sup>47</sup> Instead of seeking an objective Archimedean point, the critic locates the transcendent within the immanent. Critical theory focuses on the pathologies of the present by recognizing that the “development of society itself gives rise to a problem situation *objectively affording contemporaries privileged access* to the structures of the social world.”<sup>48</sup> The Frankfurt School argues that the internal contradictions of the present are expressed not only through economic dysfunction, but also as “*lived crises*” experienced by concrete individuals.<sup>49</sup>

As part of the broader movement known as Western Marxism, the first generation of the Frankfurt School interprets Marx as a critical thinker, not as the scientific economist whose theories served as the basis for Soviet (Eastern) Marxism.<sup>50</sup> This leads to a methodology that proceeds in two operational stages, demanding both “the analysis of the process of social reproduction with reference to systematic dysfunctions and antinomies, and also with reference to the dynamic possibility of a radical and historically progressive social transformation.” Critical

theory therefore moves from an “analytico-theoretical” moment to a “critical-practical” (Márkus) stage that brings determinate social forces to “an understanding of their own situation from the standpoint of their ‘real’ interest and needs.”<sup>51</sup>

In the first “explanatory-diagnostic” (Benhabib) phase, the theorist seeks to explain and diagnose the pathologies of the present. This involves *categorical* critique showing how the concepts used to explain the crisis undermine themselves in practice when they “are measured against their own objective content.” It also builds on *normative* criticism of the practices and norms governing the system as a whole. Thus, immanent critique is not just an analysis of the concepts of the social practice in question, but also an examination of its failure to achieve its broader social and political objectives, so that “the discrepancy between ideal and actuality becomes apparent.”

In order to fully engage with the problems of the present, social criticism must move to a second, “anticipatory-utopian” phase that “addresses the needs and demands expressed by social actors in the present, and interpret[s] their potential to lead toward a better and more humane society.” In its emancipatory capacity, critical theory reflects on how the pathologies diagnosed via immanent critique *could* be resolved through the action of concrete individuals and movements in the present.<sup>52</sup> However, the *actual* resolution of these problems requires that “the agents themselves . . . appropriate the interpretations, explanations and criticisms proposed by the theorist.”<sup>53</sup>

The rest of my argument applies this approach to the crisis of the Eurozone. In the next section, I draw on categorical critique to show the “developmental pressure” the crisis has exerted on the Eurozone, pushing the member-states towards the kinds of supranational economic and political structures necessary for a functioning monetary union.<sup>54</sup> In addition to examining these internal, *categorical* contradictions, I also show how the EMU has failed to fulfill its internal *normative* goal of containing German power. In the penultimate section I proceed to the “anticipatory-utopian” stage of the argument, showing how the peoples of Europe can act to resolve the pathologies of the present by reasserting their popular sovereignty at a supranational level.

## The Immanent Potential of the EMU

Conducting an immanent critique of the EMU requires a brief historical reconstruction of the euro’s effects on politics and economics within the Eurozone. After the introduction of the common currency at the turn of the second millennium the new member-states of Europe’s east and south took advantage of historically-low interest rates to make up for funds lost to budgetary consolidation. The crisis shut off the spigot, exposing large budget deficits that only grew as the governments of these states were

forced to step in and cover the losses of large private enterprises. The result was catastrophic for the states on the periphery of the Eurozone.

A strategy based on recapitalization and backstopping might have calmed global financial markets if the leaders of the EU had acted quickly to ensure the stability and liquidity of their banking systems by making it clear that the core would not allow the periphery to default on its debt. However, German Chancellor Angela Merkel insisted that the guarantee against the default come from the individual member-states, not the EU as a whole. As panicked markets sought ever-higher interest rates to finance new loans, the crisis-ridden member-states of the east and south slid deeper and deeper into debt.<sup>55</sup> The crisis only abated when the president of the European Central Bank (ECB), Mario Draghi, made his institution into the *de facto* lender of last resort by declaring that Frankfurt would do “whatever it takes to preserve the euro.”

Public discourse in the north has focused on the “irresponsible” spending of the “lazy,” “work-averse” south. Southern calls for help were seen as an attempt to steal hard-earned northern money. The fact that German uses the same word for debt and guilt (*Schuld*) helped tie economic debates in the Federal Republic to moral wrongdoing by building on the linguistic connection between these two concepts. As David Graeber points out, “the difference between a ‘debt’ and a mere moral obligation. . . is simply that a creditor has the means to specify, numerically, exactly how much the debtor owes.” By making debt into a matter of “impersonal arithmetic,” the creditor states were able “to justify things that would otherwise seem outrageous or obscene” by distancing themselves from the suffering of people in the crisis-ridden member-states.<sup>56</sup>

Southern calls for help were met with legalistic replies about the “no bailout” clause (art. 125 of the “Treaty on the Functioning of the European Union”). This position overlooks recent discussions about the possibility of renouncing “odious debt.” It also ignores the fact that the banks that lent money to the European periphery undertook a certain degree of risk—the same risk that they use to justify their profits. After all, “if a bank were guaranteed to get its money back, plus interest, no matter what it did, the whole system wouldn’t work.”<sup>57</sup>

Although the northern insistence that southern debts be repaid in full helped placate voters in the north, it disregards the structural factors driving the financial collapse. What superficially appears to be a sovereign debt crisis is actually a currency and banking crisis. As Streeck points out, “it is not ‘our’ [‘northern’] money but that of the banks which is at stake, and not solidarity with the Greeks but with ‘the markets.’”<sup>58</sup>

While some responsibility for the build up of sovereign debt lies with profligate elites in the European periphery, banks in the north financed this borrowing with open

eyes. After the onset of the crisis these institutions argued that they were “too big to fail” to blackmail governments into repaying bad loans. This set off a vicious cycle between banks and the member-states, demonstrating that “sovereign debt markets can easily become a forum for both debtors and creditors behaving badly.”<sup>59</sup>

The EU first recognized the “imperative to break the vicious circle between banks and sovereigns,” in a communiqué in June 2012 and repeated it following a European Council meeting in 2013. Breaking out of this pattern requires a banking union with increased supervisory authority, powers of debt resolution to negotiate the abrogation of liabilities generated by bad loans, and a deposit guarantee to protect the savings of individual citizens. However, such steps would have significant fiscal and political implications for the member-states.

Historically, successful currency unions have inevitably turned into political unions backstopped by sovereign authority. Although repatriating power back to the member-states is theoretically an option, it is untenable given that sovereignty has been “hollowed out” over the course of the twentieth century.<sup>60</sup> Resolving the crisis will therefore involve cross-border fiscal support for less competitive member-states, just as economically stronger states support weaker ones within the United States. This fiscal solidarity would also help address Germany’s current accounts surplus, which places “sever pressure” on the troubled economies of the south in violation of the EMU rules designed to maintain an internal balance between imports and exports within the Eurozone.<sup>61</sup>

The political determination to keep the euro—summed up in Angela Merkel’s statement that “If the euro fails, Europe fails”—has not been matched by a readiness to accept the structural imperatives of a functioning currency area. Despite their protests and the public discourse blaming the debtors, the internal logic of the Eurozone and the economic necessities of a functioning monetary policy have gradually forced northern leaders to take steps towards banking, fiscal, and political union. The development of the crisis has demonstrated that common fiscal governance, the presence of a lender of last resort, and cross-border financial transfers are non-negotiable, internally-necessary principles of a monetary union.

This development is hardly surprising. In 2001 the president of the European Commission, Romano Prodi, told the *Financial Times*, “I am sure that the euro will oblige us to introduce a new set of economic policy instruments. It is politically impossible to propose that now. But some day there will be a crisis and new instruments will be created.”<sup>62</sup>

Although they have always sought to do the bare minimum necessary to hold the system together, the progress of the EMU since 2010 has been astonishing, especially by the slow-moving standards of the EU. Upon closer analysis, the “community’s *objective practices and*

*institutions* . . . contain . . . immanent normative potentialities,” a “realizable ‘ought’ which is immanent to the ‘is.’”<sup>63</sup> In other words, the crisis has forced the realms of the politically possible and the economically necessary to gradually overlap.

The immanent potential of the EMU has acted as a “force towards opening up, learning and transformation in the concrete situation.” The general pattern of crisis management shows that the leaders of the northern creditor states have repeatedly been required to take up measures they had previously assured their constituents that they would never agree to.<sup>64</sup> The actions of Chancellor Merkel, dubbed the “master of crossing red lines” by the influential German weekly *Der Spiegel*, is the most glaring example. This is visible in her repeated violation of her own promises regarding fiscal support for Greece:

First she said Germany would not be sending a cent of aid to Greece. Then she assured Germans that Europe’s bailout funds would only be temporary. Finally, she denied that Greece’s first bailout package would soon be followed by a second one. Each time, she was forced to break her promises, and each time the amount of money the Germans are committing to support the euro became larger.<sup>65</sup>

Despite repeatedly crossing red lines, Merkel has remained unwilling to do more than the minimum necessary to solve the problems facing the Eurozone on any given day. Instead of focusing on the big picture, she and the other northern states have addressed problems on an *ad hoc* basis. David Marsh refers to this phenomenon as “Merkel’s Law of Permanent Disappointment” because “the German cave-in is never complete enough to resolve the euro’s problems or to win more than grudging acknowledgement from supplicant states pleading poverty. But it nearly always goes too far for Merkel’s critics in Germany.”<sup>66</sup>

The gradual resolution of the structural contradictions of the EMU is visible in the negotiations for a European-wide banking union with effective supervisory capacities, powers of debt resolution, and a deposit guarantee.<sup>67</sup> While Germany’s desire to protect its regional *Landesbanken* from centralized supervision has slowed progress on the first pillar, the European Council has reached an agreement allowing the ECB to perform oversight on Eurozone banks through the Single Supervisory Mechanism. This settlement has spurred negotiations on a Single Resolution Mechanism to complement joint supervision. Progress on the third pillar has stalled, but the “master of crossing red lines” may have to give in on this point also.<sup>68</sup>

The increased interdependence created by the growing loans used to finance sovereign debt and the progress on common banking regulation is slowly pushing the nation-states of the Eurozone towards increased fiscal cooperation. Debt mutualization, most likely through Eurobonds issued on behalf of weaker members, will also probably have to

be part of the equation. Joint bonds would have to be backstopped by the EU and the credit-worthiness of the stronger Eurozone member-states. This step would end the cycle of rising interest rates by allowing all members to share the same relatively low costs of borrowing.<sup>69</sup> Since it is hard to imagine any member-state agreeing to bear part of another’s debt without some form of fiscal oversight, a broader political union is on the horizon.

Up to this point, my use of immanent critique to understand the inner dynamics of the Eurozone crisis has been categorical, investigating how the practices of the Eurozone contradict the idea of a functioning currency union. In line with the “explanatory-diagnostic” phase of the Frankfurt School’s two-step approach to critical theory, this analysis must be supplemented by normative critique. Instead of focusing only on the internal contradictions visible within political economy, this move focuses on the broader norms governing the social system as a whole. Whereas categorical critique spotlights the internal problems generated by the concepts used to understand economics as a specific area of social life, internal normative criticism examines the basic goals of the practices and institutions in question.

The desire to contain Germany—which Henry Kissinger describes as “[t]oo big for Europe and too small for the world”—has a long history. During the postwar period, the division of Germany between the eastern Democratic Republic and the western Federal Republic served as a temporary solution to the “German problem.”<sup>70</sup> However, even in its divided state, the *Deutschmark* became Europe’s leading currency as a result of West Germany’s *Wirtschaftswunder*.

As Germany’s institutional “binding to the West” (*Westbindung*) made it less of a military threat to peace, the “German problem” shifted to the economic sphere. The member-states of the European Communities—the institutional forerunner of the EU—experienced inflation, devaluation, and monetary volatility as they struggled to keep up with the Federal Republic’s efficiency and productivity.<sup>71</sup> Their attempts to tie their monetary policies to those of the *Bundesbank* through elaborate exchange rate mechanisms gave birth to the idea of coopting the German Central Bank from the inside by replacing the D-Mark with a shared currency governed by joint institutions.

The opportunity to realize this project came with the end of the fall of the Berlin Wall in 1989. In exchange for allowing West German Chancellor Helmut Kohl to secure his place in history by reunifying Germany after 45 years of division, French President Mitterrand demanded “a European currency, with an immediate agreement in black and white, as a sign of German attachment to Europe.”<sup>72</sup> Tying reunification to the Federal Republic’s agreement to monetary union was meant to dilute German power. Mitterrand argued that “without a common currency, we are all of us . . . already

subordinate to the Germans' will. . . . The only way of having the right to speak is to establish a European Central Bank, where one will take decisions jointly."<sup>73</sup>

In the wake of the Eurozone crisis, it is clear that monetary union has failed to fulfill this goal. Instead of taming German power, the euro has actually increased the dependence of the other member-states on the economic decisions of the German hegemon. An institution originally designed to create equality between the member-states has actually threatened to create a permanent bifurcation between the core and the periphery, between northern creditors and southern debtors.

### Leadership, Democracy, and the European Public

As a result of the crisis, "monetary union, initially conceived as a technocratic exercise . . . is now rapidly transforming the EU into a federal entity."<sup>74</sup> Despite its increasing internal divisions, Europe may have to brace itself for another round of institutional deepening. The key question is whether increased integration will succeed in pushing democracy up to the European level or whether it will further alienate the people from a technocratic institution based on neo-liberal economic principles.

Most theorists have focused on the leaders of Europe as the actors who could rally the public to actualize immanent goals "by adopting [them] as a conscious aim."<sup>75</sup> This is not the most appealing prospect. As the first cohort born after 1945 to take the reins of power, the leaders in office at the start of the twenty-first century lack the emotional connection created by memories of war and suffering shared by their predecessors. In Habermas's words, they are "normatively disarmed" (*normativ abgerüstet*), "preoccupied with a short-winded approach to the day-to-day problems."<sup>76</sup>

Given the internal imperatives towards union, there is still hope that the crisis can push European leaders to adopt the economic measures necessary despite political resistance. This is also not necessarily a desirable outcome. While political leaders might be able to reach agreement "through the proven neo-functionalist model, without the participation—and possibly even against the will—of the populace," such a development would further alienate European citizens from the EU.<sup>77</sup> Instead of following this path, Europe must generate greater popular legitimacy as it inserts itself into the fiscal and welfare policies, policy areas typically reserved for states.

As is often the case in such situations, political leaders have urged citizens and markets to be realistic about possible changes to the Eurozone. This kind of realism can easily slip into fatalism. As part of their conviction that "no facet of social reality could be understood . . . as final or complete in itself," critical

theorists have maintained that reason should seek to change social reality instead of accepting it as a given.<sup>78</sup>

In order to think about how to confront a despondency that can block political action even in the face of obvious contradictions in existing social institutions, I have to switch to the "anticipatory-utopian" phase of critique, starting with the "require[ment] that a catalyst and agent of social transformation be specified." This leads me to repose "the question of Who rules Whom?"<sup>79</sup> In modern societies, the answer to this query usually involves the identification of an office, position, or institution. Given the complex, quasi-federal supranational community model of the EU, the candidates include the leaders of the member-states, the European Council, the president of the European Commission, the president of the European Council, and the president of the European Parliament.

While this question is difficult in the abstract, "thanks to its economic might, Germany has been catapulted by the financial crisis and the crisis of the Euro into the position of the undisputed great power." Any changes to structure of the Eurozone must have the support of Europe's economic, financial and monetary hegemon. Ulrich Beck illustrates the key role that Germany plays in the euro-crisis with an example from February 2012, when Europe was considering the second rescue package for Greece. In reporting on the decision facing the EU, a journalist on the German radio reported that "today the German Bundestag will decide the fate of Greece."<sup>80</sup>

Instead of making decisions regarding the steps necessary to resolve the crisis jointly through the European Council or the European Parliament, the *Bundestag* has emerged as the primary check on democratic will-formation in Eurozone as a whole. This change has been driven by the Federal Republic's Constitutional Court, which has used its powers of constitutional review to ensure that crisis measures negotiated between European leaders have to be voted on by the German Parliament. As a result, it has turned itself into the *de facto* legal arbiter for all of Europe. Much like the *Bundestag*, the *Bundesverfassungsgericht* has exercised its power over all of the member-states, despite only representing German interests.

These developments have exacerbated Europe's democratic deficit. Much of the EU's basic structure, such as its unelected executive commission, which is only partially responsible to an assembly of representatives from the nation-states, has existed since its inception in the 1950s.<sup>81</sup> Despite these problems, the EU has actually become more democratic over the course of its development, even in terms of popular sovereignty. The institutional deepening of integration since 1985 has accorded more and more power to the European Parliament. Since the inauguration of the European Council in 1974, the EU has also been able to draw more democratic legitimacy from leaders elected on the national level, because most important



decisions have to be approved by heads of government with a domestic electoral mandate.<sup>82</sup>

There are limits, however, to how far integration can go without developing its own freestanding democratic legitimacy through shared supranational practices of opinion- and will-formation. While many of the EU's activities are technocratic and delegated even at the national level, this defense of the EU has lost its force as the Eurozone crisis has pushed Europe to expand its competencies into more democratically salient policy areas like fiscal policy.<sup>83</sup> The EU's increasing tendency to act as a political union must also be complemented by more democratic decision-making procedures.

Although important European leaders—represented by constellations such as Robert Schuman, Konrad Adenauer, and Jean Monnet, who spurred the creation of the first European Communities, as well as François Mitterand, Helmut Kohl, and Jacques Delors, who undertook Europe's transition from Community to Union—answered the call for further integration in the previous century, leadership will not be able to resolve the problems of the EMU on its own. Far from pointing the way into the future, “politics seems to be holding its breath and dodging the key issues at the threshold leading from the economic to the political unification of Europe.” Since the EU has failed to deliver on its promises of prosperity, Europeans have “let themselves be bothered only by problems that emerge in day-to-day affairs” with an increasingly nationalist focus.<sup>84</sup>

Despite Germany's hegemonic position, the answer to the question of rule *should* center on the citizens of Europe. The crisis has shattered the myth of the EU as a technocratic organization that has little effect on the daily lives of its citizens.<sup>85</sup> Given its increasing influence on the welfare and fiscal policies of the member-states, it is now clear that the EU is immensely political and has huge effects on the everyday lives of Europeans.

One result of the new supranational powers the EU has developed over the course of the crisis is that the peoples of Europe are increasingly “address[ing] the same critically filtered issues and contributions at the same time.”<sup>86</sup> While national media still dominate, in this nascent transnational public sphere “European issues are debated as questions of common concern using similar frames of reference.”<sup>87</sup> This, at least, is a positive development pointing to the potential empowerment of the citizens of Europe.

It is still unclear whether the rise of a more unified European public sphere will engender the social solidarity necessary to promote fiscal policy across borders or whether it can shift continental processes of will-formation from national leaders to the directly-elected European Parliament with an EU-wide mandate. The citizens of Greece and Italy have already asserted their will against the desires of the European Council and financial markets by toppling the technocratic governments of Lucas

Papademos and Mario Monti. Despite the difficulties, the citizens of Europe must maintain the belief that they can embrace their necessary role as the actors who should be exercising sovereignty over the EU.<sup>88</sup>

The prospect of further integration also raises the question of a two- or even multi-speed Europe. On the one hand, such a move would merely reinforce existing trends. From its origins, different member-states have pursued different goals, ranging from cooperation in market liberalization for the United Kingdom to a genuine desire for “ever closer Union” within the Franco-German motor of integration.<sup>89</sup> States on the institutional margins have done so by opting out of certain policies, most notably Schengen and the euro, treating integration as a buffet from which they can pick and choose, rather than as a *prix fixe* menu. On the other hand, transforming the EMU into an optimum currency area would require a more formal acknowledgement of this trend, which would have important psychological and political consequences for relationships between the core and the periphery. This fact merely reinforces the need for citizen participation in such a transformation.<sup>90</sup>

### Beyond Economic Rationality

A politically active European citizenry that uses its popular sovereignty to assert its will through the supranational institutions of the EU is crucial for the future of Europe. The struggles of states to respond to the financial crisis, which was driven in large part by a regulatory race to the bottom, demonstrates the need for supranational cooperation on the level of economic, financial, and banking policy. It is now clear that “the democratic states of the capitalist world have not one sovereign, but two: their people, below, and the international ‘markets’ above.”<sup>91</sup>

Despite the successes of the voters in Italy and Greece in overthrowing the technocratic leaders imposed on them by external forces, they have not been able to fight off the neo- and ordo-liberal policy prescriptions dictated by global financial markets and the leadership of the Federal Republic of Germany. This fact reveals the flaw in the “back to the state” arguments presented by scholars like Streeck.<sup>92</sup> In order to reassert its power in an age of ever-increasing globalization, the popular sovereignty of the people will have to move above the nation-state. As Habermas points out, “it is only through such new transnational steering capabilities that the *social* forces of nature that have been unleashed at the transnational level—i.e., the systemic constraints that operate without hindrance across national borders, today especially those of the global banking sector—can also be tamed.”<sup>93</sup>

Through an immanent critique of the Eurozone crisis, I have shown that the developmental pressure of the common currency is gradually pushing the EU towards completing the EMU through increasing banking, fiscal,

and political unification. The debates spurred by the crisis have also led to the creation of a nascent European public sphere, which could potentially create the processes of opinion- and will-formation within civil society needed to support these increased supranational political capacities. As a result, there is reason to hope that “expanding Europe’s political capacity for action” may in fact “happen simultaneously with the expansion of the basis of legitimation of European institutions.”<sup>94</sup>

This argument should not be seen as panglossian. It is up to the citizens to assert their will against the forces of globalized financial capital. Unfortunately, even before their recent loss of steering capacity, European nation-states showed little interest in taming international financial markets.<sup>95</sup> This process will be even harder if the divisions between creditor and debtor states persist. In that case the status quo inclinations of the German electorate could cancel out the will of more progressive voters in the European periphery.

Faced with an economic system that threatens to overwhelm the political steering capacities of individual states, European citizens will have to “push for further political integration in order to extend their control over quasi-natural economic forces [to] recover a democratic balance between politics and the market.” To do otherwise merely perpetuates “a fiction of sovereignty . . . convenient for Germany.”<sup>96</sup> While Germans may see themselves as Hegelian “knights of virtue” (*Ritter der Tugend*) trying to hold the other members of the Eurozone to their legal commitments and the moral imperatives against debt, they are actually ignoring the fact that their “current practices are practically self-defeating for the system as a whole.”<sup>97</sup>

Whether the German voters will come around to this perspective is an open question. It is possible that a thicker European society built on an integrated continental public sphere could succeed in turning existing centrifugal forces into centripetal pressures that “promot[e] a European identity across social class groups.”<sup>98</sup> However, this would require the citizens of the northern member-states, who have managed to ride out the crisis so far, to express greater solidarity for the economic and social suffering recent events have caused individuals in the south.

As Europeans come into ever-greater contact with each other—in large part due to the creation of the Common Market—there is reason for hope. However, this conclusion also points to the fact that focusing on economic rationality will not be enough. At the tail end of the Great Depression in 1937, Horkheimer argued that “the economy is the first cause of wretchedness, and critique, theoretical and practical, must address itself *primarily* to it.”<sup>99</sup>

As signaled by his use of the word *primarily*, Horkheimer was aware that economic critique alone was no longer sufficient to expose the inconsistencies

within modern industrialized political communities. Other factors besides economics, including culture, society, and education, will also be crucial to the development a solidaristic European public capable of legitimating the EU with its communicatively-generated popular sovereignty. Europeans must resist the temptation to resign themselves to a tragic fate by building on the opportunities presented by the crisis to not only self-consciously appropriate and act on the principles contained within the Eurozone, but also to form the closer cultural, social, and economic bonds necessary for them to retake control of their lives vis-à-vis international markets.<sup>100</sup>

## Notes

- 1 Trichet 2013; Lapavitsas 2009, 114–48.
- 2 Sinn 2010, 20; Lizoane and Ecke 2013, 2.
- 3 Piris 2012, 42; Marsh 2011.
- 4 Giddens 2013, 25; Beck 2012; Sinn 2010; Offe 1976, 67–80.
- 5 Aglietta 2012, 24.
- 6 Vilpišauskas 2013, 363; Sissenich, 2008, 143; Haas 2004; Smialek, 2013.
- 7 It has made the position of scholars who have sought to downplay democratic deficit much less tenable. See Moravcsik 2002, 603–24; Majone 1998, 5–28; Rosanvallon 2011.
- 8 Gifford 2014; Baimbridge Burkitt, and Whyman 2006; Serricchio, Tsakatika and Quaglia 2013; Usherwood and Startin 2013.
- 9 Leconte 2010, 5.
- 10 Krugman 2012, 443; Feldstein 1997, 60–73.
- 11 Habermas 2013a, 5; Offe 2013, 1.
- 12 de Grauwe 2011; Spence, 2011.
- 13 Rush 2004, 28–9; Adorno et al. 1976, 23.
- 14 Beck 2013, 3.
- 15 Benhabib 1986.
- 16 Sissenich 2008, 143; Simon 2014, 812; Vilpišauskas 2013, 370.
- 17 Honneth 2004, 345–52.
- 18 Aglietta 2012, 22.
- 19 Hegel 1977, 17; Strydom 2013, 122.
- 20 Although there is significant scholarly and political disagreement about the *finalité* of the EU, my argument proceeds from the assumption that the European project seeks to develop a new postnational form of politics. For other interpretations, see Morgan 2005 and Sangiovanni 2013.
- 21 Shapiro 2002, 596–619; Leopold and Stears 2008, 1; Swift and White 2008, 49–69; Mayhew 2000, 192–3.
- 22 Geuss 2008, 42; Williams 2005, 77.
- 23 Waldron 1999, 154–5.
- 24 Sissenich 2008, 153; Galston 2010, 393; Philp 2007, 239; Bellamy and Castiglione 2003, 7–34.
- 25 Ferrara 2007, 315–331.

- 26 Morgan 2005; Rawls and Van Parijs 2003, 7–20; Sissenich 2007, 353.
- 27 Manent 2006, ch. 4.
- 28 Manent 2010, 179. This argument is related to the “no *demos* thesis,” which holds that the Europe must develop a sense of peoplehood (a *demos*) before it can aspire to become a political community. See Manent 2001, 113; Moravcsik 2002, 603–24; Bohman 2006, 191–212; Grimm 1995, 282–302. While theoretically interesting, this argument does not hold up to historical scrutiny, as political integration has usually preceded the creation of stable national identities. See Weber 1976; Habermas 2006, 500–05.
- 29 Streeck 2014.
- 30 Habermas 2013c, 59–70; Streeck 2013, 75–92; Ronzoni 2015.
- 31 Bellamy and Castiglione 2003, 7–34.
- 32 Kauppinen 2002, 483.
- 33 Ohmae 1995, 42; Guéhenno 1995; Horsman 1994.
- 34 Koskenneimi 2011, 63.
- 35 Mazower 2012, 421.
- 36 Goldstein et al. 2001; Habermas 2008, 444–55; Klabbers Peters and Ulfstein 2009.
- 37 Weber 1958, 78, emphasis original; Deng 1996, xviii.
- 38 Nettle 1968, 561; Weiler 1999, 98.
- 39 Crouch 2004; 2013.
- 40 Walzer 1987; Stahl 2013, 534.
- 41 Adorno 1969, 174, author’s translation; Löwenthal 1980, 77–79; Habermas 1992, 34; Marcuse 1968.
- 42 Strydom 2013, 87.
- 43 Linklater 1998, 6.
- 44 Hegel 1969, 580–1; Hegel 1965, §29.
- 45 Benhabib 1986, 113, 109.
- 46 Márkus 1979, 268; Horkheimer 1941, 122, emphasis original.
- 47 Adorno quoted in Strydom 2013, 154.
- 48 Habermas 1984/1987, II: 403, emphasis added. See Cooke 2006, 39.
- 49 Benhabib 1986, 155, emphasis original; Habermas 1984, 39–40; Frankel and Habermas 1974, 44; Allen 2012, 353.
- 50 Márkus 1982, 291–318.
- 51 Márkus 1980b, 12, 14; Márkus 1980a, 81.
- 52 Benhabib 1986, 106–7, 226; Benhabib 1982, 289–97.
- 53 Celikates 2009, 97; Geuss 1981, 62; Linklater 1998, 5.
- 54 Honneth 1995, 115.
- 55 Soros 2012, 113.
- 56 Graeber 2012, 14.
- 57 Lienau 2014; Graeber 2012, 3.
- 58 Streeck 2012b, 65.
- 59 Lienau 2014, 232.
- 60 Giddens 2013, 25; Tooze 2014, 5.
- 61 U.S. Department of the Treasury 2013, 25. Also Wren-Lewis 2014.
- 62 Quoted in Baimbridge Burkitt, and Whyman 2006, 66.
- 63 Stahl 2013, 535; Postone 2004, 170.
- 64 Strydom 2013, 102. For a complete timeline of the crisis see Sinn 2010, appendix, “Chronology of the Financial Crisis.”
- 65 *Spiegel* 2013.
- 66 Marsh 2013, 8.
- 67 Sinn 2010, 271.
- 68 Giddens 2013, 22.
- 69 Stiglitz 2013.
- 70 Meiers 2015, 118.
- 71 Blyth 2013, 75–6.
- 72 van Middelaar 2013, 185.
- 73 Quoted in Marsh 2011, 141.
- 74 Streeck 2012b, 67.
- 75 Benhabib 1986, 7.
- 76 Habermas 2010, author’s translation; Habermas 2012, 124; and Verovšek 2014.
- 77 Streeck 2012b, 66.
- 78 Jay 1973, 54.
- 79 Held 1980, 395; Arendt 1969, 15.
- 80 Beck 2013, 3, 1.
- 81 Chevènement 2006; Milward, 1992, 336; Featherstone 1994, 149–70.
- 82 See Pensky 2008; Bellamy and Kröger 2014, 437–457.
- 83 See Moravcsik 2002; Rosanvallon 2011.
- 84 Habermas 2012, 7; Habermas 2010, author’s translation.
- 85 Habermas 2014b, 184–5.
- 86 Habermas 2009, 53; Trenz and Eder 2004, 5–25.
- 87 Risse 2010, 5; Delanty and Rumford 2005, 79.
- 88 Streeck 2013, 91; Biebricher and Vogelmann 2014, 8.
- 89 Fabbrini 2015.
- 90 Levy, Pensky and Torpey 2005.
- 91 Streeck 2012b, 64; Streeck 2012a; Sinn 2010.
- 92 See Biebricher and Vogelmann 2014.
- 93 Habermas 2012, 10, emphasis original.
- 94 Habermas 2001, 99–100.
- 95 Biebricher and Vogelmann 2014, 6.
- 96 Habermas 2014a, 12; Habermas 2013b.
- 97 Bernstein 2010.
- 98 Fligstein 2008, 18.
- 99 Horkheimer quoted in Benhabib 1986, 155, emphasis added.

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