

A Contested Union: A Review of Economic, Political, and Cultural Tensions in the Eurozone

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Abstract. This paper provides a comprehensive review of academic literatures that concerning the multifaceted impacts of the Economic and Monetary Union (EMU). More than two decades after the circulation of its physical currency, the legacy of the Euro is characterized by a profound duality. It has facilitated unprecedented financial integration while simultaneously creating new conduits for economic divergence and systemic risk. Envisioned as a capstone of political unity, its governance structures have strained national sovereignty and catalyzed a new, structural political cleavage rooted in Euroscepticism. Finally, intended as a unifying symbol, the Euro coexists uneasily with the enduring power of national identities and the collective memory of antecedent currencies. This review synthesizes empirical findings from economics, political science, and sociology to analyze three core tensions: (1) the conflict between the EMU's promise of convergence and the reality of economic divergence, particularly for the small and medium-sized enterprise (SME) sector; (2) the struggle between supranational governance and national sovereignty, which has redefined European political contestation; and (3) the cultural dialectic between a constructed European identity and the persistent legacy of national belonging. The paper concludes that the Euro is not a static endpoint of integration but rather a dynamic and contested arena wherein the foundational contradictions of the European project are continually negotiated and reshaped.

Keywords: Eurozone; Economic and Monetary Union (EMU); Economic Convergence; Euroscepticism; National Identity; Supranational Governance; Systemic Risk.

1. Introduction

Over two decades since its introduction as a physical currency, the Euro represents one of the most ambitious experiments in modern political economy. It was conceived not merely as an economic tool to foster price stability and facilitate trade, but as the irreversible culmination of a political project designed to bind the nations of Europe into an "ever closer union". The legacy of this project, however, is deeply ambivalent. The single currency has undeniably created a vast, integrated financial market, eliminating exchange rate risk within the bloc and cementing the European Union's status as a global economic power. Nevertheless, this integration was defined by undeniable tensions that have revealed and sometimes worsened longstanding structural cracks within the union. The sovereign debt crisis was a particularly revelatory moment. It made the institutional weaknesses of the monetary union visible. The true legacy of the crisis, however, was not merely a fleeting economic turmoil, but a series of deep fissures it created across the economic, political, and social landscape—fissures that continue to define Europe's trajectory to this day [1].

In order to grasp this contested legacy, recent scholarly studies show that the Euro is deeply ambivalent. By taking an interdisciplinary approach that draws on post-crisis literature from economics, political science, and sociology, one can appreciate a growing consensus: The age of the single currency has affected the European economic space and the deeper processes of identity formation in ways that will have a legacy of far-reaching and long-standing structural implications. Accordingly, the Euro project is defined by a set of contradictions that arise out of these three domains. A strong economic regime that was meant to facilitate convergence actually sustained divergence. These economic fissures emptied any meaningful political terrain, undermining national sovereignty. If these conflicts happen in economic and political terms, there is a foundational cultural conflict, as

the emergence of a collective identity is in direct opposition to the lingering weight of national memory. As a relational structure, the Euro has emerged as a contingent activity, and not a definitive closure; the future viability of the Euro is contingent on continuously negotiating these inherent contradictions.

2. The Economic Architecture: Divergence, Asymmetry, and Systemic Risk

2.1. Divergent Trajectories: From Neoclassical Promise to a Reality of Division

The theoretical foundation of the Economic and Monetary Union (EMU) was built on the neoclassical idea of convergence. The reasoning was simple: in a single market without restrictions to capital and labor movements, capital would be invested in low-wage regions with workers moving to regions with the greatest wages, thus creating a "catch-up" effect for development [2]. However, the actual experience of the past twenty years tells a different story; rather than being a story of linear progress, it was a journey that began with hope, stalled into stagnation, and eventually fractured into divergence.

The implications from this fractured journey are substantial. First, the evidence does not show a steady trend, but instead demonstrates distinct phases. There was an initial, small period of convergence immediately after the Euro was introduced (which was soon completed) [1]. The ultimate turning point was undoubtedly located in the sovereign debt crisis. A rigorous regional cluster analysis [3] not only demonstrate that divergence exists, but also indicate a clear reversal of trend during the post - crisis epoch. The analysis also explicitly relates the post-crisis regional trend reversal back to the Euro's institutional arrangements - specifically that the lack of convergence supporting policies rendered peripheral regions dangerously exposed to the crisis [3].

This "core-periphery" partition cannot be dismissed as mere speculation; it can be observed and measured it by several studies into the socioeconomic and institutional space. One study provides one example of this distinction, recommending, in addition to the aforementioned binary, clubs of "income convergence" [4]. It shows how continued structural impediments, like labour productivity or human capital differences, are not being significantly remedied by integration, but rather sorting member states into economic performance delineations persisting the hierarchy that already impacts member states in the euro zone [4].

At the heart of this "divergence engine" is the evaporation of the exchange rate as a policy instrument. In a consideration of OCA theory [2], some scholars discuss how the necessary conditions for a successful monetary union were never met in ex post terms. Less competitive economies, unable to devalue their currencies in order to regain competitiveness, must now endure the whip of "internal devaluation" - ie. the repression of wages and prices. Internal devaluation, which can tragically serve as a substitute for exchange rate adjustment, has its own costs, often in the shape of economic growth - subsequently enlarging the gap that the EMU sought to close [2].

2.2. Asymmetric Monetary Policy Transmission: A Single Tool for Uneven Economies

The European Central Bank (ECB) implements one uniform monetary policy in a very heterogeneous Eurozone. This uniformity becomes an area of divergence if and when the impact of such a policy is transmitted through the real economy in uneven ways. The set of Unconventional Monetary Policies (UMP) implemented post-sovereign debt crisis is illustrative. A detailed assessment of the ECB's own SAFE survey data [5] showed that these unorthodox policies, which were intended to improve financing conditions for all economic actors, ultimately benefited mainly large corporations in "core" countries — whereas, highly leveraged Small and Medium-sized Enterprises (SMEs) in distressed "periphery" countries continued to report serious challenges of accessing credit [5].

This asymmetry is not accidental; it is built into the financial plumbing of the Eurozone. A single policy is applied, but its transmission is filtered through national banking systems of varying health and local economic conditions. The monetary tightening cycle that began in July 2022 further illustrated this. Further research showed that smaller, younger, and riskier firms exhibited a

"stickiness" to bank credit, making them far more vulnerable to rising interest rates than their larger counterparts [6]. Thus, a policy that appears expansionary at the aggregate level can feel deeply contractionary for specific, vital segments of the economy, reinforcing the micro-level foundations of the core-periphery divide.

2.3. The Paradox of Integration: Where Risk-Sharing Becomes Risk Contagion

Financial integration was intended to be the Eurozone's greatest strength, allowing risk to be shared across borders. Yet, this very interconnectedness creates the channels for financial contagion. This paradox is central to the Euro's architecture. As one foundational model established [7], the benefits of integration—enabling banks to diversify portfolios and improve efficiency—are inextricably linked to its primary danger: the failure of a single institution can trigger a domino effect across the system [7].

The sovereign debt crisis was a real-world stress test of this paradox. The crisis triggered a process of financial fragmentation that reversed decades of integration. The contagion mechanism was empirically validated by studies which demonstrated that stock market volatility originating in the GIPSI nations (Greece, Ireland, Portugal, Spain, Italy) produced significant spillover effects on markets both within and outside the Eurozone [8]. While post-crisis reforms like the Banking Union have reduced some risk spillovers, analyses show the interbank lending channel remains a potent source of potential contagion [9].

3. Political and Social Ruptures: Sovereignty, Cleavage, and Disintegration

3.1. Sovereignty in the Euro Era: From Power-Sharing to Authoritarian Statism

The sovereign debt crisis represented a significant change, which transformed EMU governance from a rules-based relation to an intervention-hierarchy. This was done by the "Troika" (European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF)) with harsh external conditionality. The crisis pushed debtor governments to make a painful choice between their own citizens and external creditors, as demonstrated by the Greek case [10]. The "Memoranda of Understanding" tied bailout conditions to major political conditions with the Troika watching over the member state governments through external conditionality [10]

This interventionist model, where the interdependence created by the Euro was weaponized as leverage, has been characterized by some scholars as the emergence of "transnational authoritarian statism" [11]. This is a system where the state is empowered to impose unpopular reforms demanded by external actors, but at the direct cost of its own domestic democratic legitimacy [11]. The process revealed how a structure designed for cooperation could be transformed into a coercive, hierarchical tool during a crisis, leaving a legacy of resentment that would fuel new political conflicts.

3.2. The New Political Cleavage: A Battle Over Identity and Belonging

The rise of Euroscepticism is best understood not as a simple for/against binary, but as the activation of a new, structural political cleavage. Drawing on cleavage theory, this phenomenon is framed as an emerging "cosmopolitanism-communitarianism" divide [12]. This pits those who benefit from and support deeper integration against those who perceive it as a threat to their economic security, cultural identity, and national sovereignty [12]. The single currency, as a profound form of "positive integration" (the creation of new rules and institutions), acts as a powerful "cleavage activator," making abstract tensions tangible.

This cleavage is dynamic. While the debt crisis was a key catalyst, new issues are constantly being mapped onto this divide. For example, some analyses show how opposition to EU climate policies is becoming a new mobilizing issue for Eurosceptic voters, who frame it as a conflict between elite environmentalism and national economic interests [13]. Polling ahead of the 2024 European Parliament elections suggests that while outright "exit" campaigns have faded, right-wing Eurosceptic

groups are projected to gain seats, shifting the debate towards a contest over the EU's future direction [14]. The Euro's governance framework provides a constant, high-profile focal point for these grievances, turning cultural anxieties into organized political conflict.

3.3. The Shadow of Brexit: When Identity Becomes a Veto

The United Kingdom's withdrawal from the EU serves as the ultimate case study for these forces. While economic grievances played a role, a compelling body of research suggests the decisive factor was identity. One analysis argues that the critical variable was the uniquely weak sense of European identity among the British populace [15]. This thin affective attachment rendered pragmatic, economic arguments for remaining ineffective against a powerful movement centered on an appeal to national sovereignty and identity ("take back control") [15]. This was connected to the reinforcement of a new English identity, constructed as a defense against perceived threats from devolution, EU membership, and immigration [16].

This "identity veto" has proven remarkably durable. Years after the referendum, post-Brexit public opinion research reveals a complex picture: while a majority now believe Brexit has worsened the country's economy, this has not translated into a majority desire to rejoin the EU [17]. The identity and sovereignty concerns that propelled the vote remain potent. The Brexit case demonstrates that when a sufficiently large portion of a member state's population lacks a meaningful emotional connection to the European project, national identity can override perceived economic self-interest. It is a stark lesson that economic integration alone is insufficient to guarantee the long-term stability of the union if a corresponding shared identity is absent.

4. The Cultural Legacy: Collective Memory and Contested Identity

4.1. The Ghost of Currencies Past: How the Deutsche Mark Haunts the Euro

The Eurozone's institutional architecture cannot be fully understood without appreciating the power of collective memories associated with its antecedent national currencies. The German collective memory of Weimar-era hyperinflation, and the subsequent veneration of the Deutsche Mark as a symbol of stability, was effectively "uploaded" into the institutional DNA of the ECB. As has been detailed in the literature [18], Germany's condition for relinquishing its cherished currency was the creation of a European monetary system modeled on its own: an independent, inflation-hawkish central bank [18].

This successfully embedded a powerful "stability culture" at the heart of the EMU. During the sovereign debt crisis, however, this German-centric definition of stability—focused almost exclusively on price stability—clashed violently with the needs of other member states. The German-prescribed remedy of fiscal austerity, rooted in its historical memory of the dangers of inflation as analyzed in other research [19], was perceived by others as a source of profound economic and social instability [19]. This revealed how one nation's historical trauma could become the basis for hegemonic and highly contested policy for the entire union. The Eurozone thus becomes an arena where national collective memories collide, and policy debates are simultaneously battles over historical interpretation.

4.2. Forging a European Demos?: The Euro as an Empty Symbol

The Euro was conceived as a powerful symbol to foster a common European identity. However, the evidence suggests it has largely failed in this ambition. Whereas national currencies were imbued with specific, emotionally charged meaning, the Euro's designers, as one study describes [20], deliberately opted for generic, abstract symbols like bridges and gateways in an effort to be inclusive [20]. This approach, however, created a central paradox: the more a symbol tries to mean everything to everyone, the greater its risk of meaning little to anyone in particular.

This paradox opened a symbolic void. This void was quickly filled not by a shared European sentiment, but by the starkly divergent lived experiences of the currency. High-quality survey data from projects like the European Social Survey (ESS) consistently show that national identity remains the primary vector of emotional attachment for the vast majority of Europeans [21]. For a German saver, the Euro might signify stability; for a Greek youth, it could symbolize unemployment and lost sovereignty. Consequently, rather than binding citizens together through a shared emblem, the Euro has often served as a mirror, reflecting just how deeply divided they remain.

5. Conclusion

The Euro emerges from this review not as a smooth path toward inevitable union, but as a project fundamentally defined by its internal contradictions. Its economic architecture simultaneously integrates and divides; its political governance erodes national sovereignty while forging new cleavages; and its cultural ambition to create a collective identity clashes with the enduring power of national memory. The Euro is not the tranquil harbor at the end of the European journey, but the stormy sea itself—a space of constant negotiation between unity and division. Its future stability, therefore, will depend less on technical solutions and more on the political will to invest in shared projects that are emotionally resonant, substantively inclusive, and respectful of the enduring force of national identity.

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