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Collateralized Polities: The Transformation of Trust in Sovereign Debt in the Wake of the Eurozone Crisis

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Abstract:

Using the example of the current sovereign debt crisis in the European Monetary Union, the article raises two questions: how does sovereign debt contribute to the constitution of modern political sovereignty and the viability of the polity? And what are the recent changes in this mutual articulation of political sovereignty and financial debt? In genealogical terms, it is argued that in modernity the sovereignty of polities has been hinged to the capacity to raise their budgets without an explicit collateral, that is, without having to clearly define what the values are that serve as a financial counterweight to their debts. This constellation, which is characterized by an utterly unlikely and yet operative effacement of state collateral, is termed 'sovereign trust.' The recent Eurozone crisis, in turn, displaces sovereign trust in the creditworthiness of some states as their collateral is being forced into constant interrogation, turning them into 'collateralized polities'.

Keywords: European Monetary Union; sovereign debt; financial crisis; trust

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1. Introduction [1]

This article argues that the political significance of the sovereign debt crisis in the European Monetary Union (EMU) and of the measures taken since cannot be fully understood without grappling with two questions: how does sovereign debt contribute to the constitution of modern political sovereignty and the viability of the polity? And what are the recent changes in this mutual articulation of political sovereignty and financial debt? The key to answering both questions lies in a genealogical and conceptual discussion on the concepts of debt and trust. Trust is an especially fruitful lens with which to view this issue. It allows for the conception of the utter unlikeliness that, in modernity, polities have been endowed with the capacity to raise their budgets without an explicit collateral, that is, without having to clearly define what the values are that serve as a financial counterweight to their debts. The currently ubiquitous analogies that are drawn between private household economies and national economies, a resemblance that is seen in the normative argument that neither of them can live beyond their means sustainably, are questioned by historical and cultural-theoretical considerations which highlight the stunning ability of modern polities to do just that. The current sovereign debt crisis in the EMU is thus case in point of how the nature of sovereign debt, as based on a form of trust, actually challenges and thereby exposes that which shields the collateral from interrogation.

The paper is structured as follows. First, a theory and methodology section, part 2 introduces the general understanding of the relationship between political sovereignty, sovereign debt, and trust as one regulated by a discursive economy in the sense of Foucault, Laclau and Mouffe. From this perspective, the state is not the natural carrier either of sovereignty nor of creditworthiness but has to be endowed with both through specific discursive interconnections. It is thereby, in particular, the inference found in Foucault that the modern state relies crucially not only on a will to know but also on a capacity to abstain from knowing in certain of its areas (most importantly, the political economy) that characterizes modern polities.

These approaches are then carried over into a discussion on the effacement of the collateral of sovereign debt as a precondition of its very constitution. The precondition first emerged in the discursive cloth of 'public credit' in Great Britain of the late 17th century. This section (3) will refer to works in economic history and cultural theory that discuss the historical shuttling of the concept of 'public credit' between solid trust and anxious questioning regarding the substance of its collateral.

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Then in section 4, the underlying problématique – namely, that trust and confidence in sovereign debt are paradoxically based on the concealment of the collateral as an aspect of its virtuality – is then rearticulated in terms of sociological conceptions of 'trust.' And it is in the concealment of collateral that it is possible to zero in on the full unlikeliness that trust in sovereign creditworthiness is based upon.

Proceeding from this historical specification and the following conceptualization of 'sovereign trust,' the emergence and crisis of the EMU will be made subject to a reconstruction in terms of changing conjectures of trust and the collateral of sovereign debt (sections 5 and 6). While the introduction of the Euro represented a transfer of the seat of sovereign trust from the nation-state to the supranational level, the political responses to the sovereign debt crisis in Europe have in fact exposed various challenges to sovereign trust. The major argument will be that the discursive process through which the collateral was concealed now suffers from malfunctions resulting from attempts in the Eurozone to stabilize the Euro and to overcome the crisis. The key issue is the question of what the conditions are that make sovereign trust reemerge once it has been withdrawn.

2. The 'Articulation' of the Modern Polity

As the present paper is concerned with the transformation of the polity and of the viability and capacity it is attributed, it cannot take the modern polity (mostly understood in terms of statehood) for granted. Rather, it must treat the polity as a label for a conglomeration of heterogeneous practices and entities, a label, however, which has itself exerted enormous influence on the definition of modern understandings of the political. Thus, while on the one hand the present paper must be based on a heuristic that views the polity as a compound and heterogeneous entity, on the other hand it must account for the, if 'only' imaginary, unity of the polity as one of its defining characteristics in modernity. This calls for an approach that explains both the contingent composition of the polity as an assemblage of heterogeneous entities and the imaginary unity it is endowed with, mostly in the guise of the state.

The theoretical option that promises to methodologically reconstruct the constitution of the state as a heterogeneous entity most intimately is the discourse-theoretical approach suggested by Ernesto Laclau and Chantal Mouffe (2001). In their critique of orthodox Marxist thought, they argue that conflicts and power struggles in modern societies cannot be analyzed with a set of instruments that proceeds from the unproblematic existence of social or institutional aggregates, like 'state,' 'class,' or 'capital.' Instead, the analysis has to uncover how these only seemingly self-explicatory and self-identical aggregates emerge in the first place. According to their argument, this emergence can be understood as a moment of discursive "articulation" (Lacalu/Mouffe 2001: 113) that is, as the signification of social and political entities emerging from the links with other entities with which they engage.

Thereby, the notion of 'discourse' is a fairly encompassing one. According to Laclau and Mouffe, the logic of signification follows dynamics that consider the interrelations of the various signifiers, and not some underlying reality. At the same time, signification is a dimension that is not limited to discourses in the textual sense, but can be applied also to non-textual phenomena such as social institutions or movements as long as they become part of the symbolic dynamic of struggles for hegemony. Accordingly, the concept of "articulation" is not limited to speech acts, but includes

> "any practice establishing a relation among elements such that their identity is modified as a result of the articulatory practice. The structured totality resulting from the articulatory practice, we will call *discourse. [...] The practice of articulation, therefore, consists in the construction of nodal points which partially fix meaning; and the partial character of this fixation proceeds from the openness of the social, a result, in its turn, of the constant overflowing of every discourse by the infinitude of the field of discursivity."* (Laclau/Mouffe 2001: 105, 113)

While this argumentation, intended as a contribution to a critical discussion of social, political, economic, and cultural forms of domination, has been received as an intervention that inescapably harbors political implications for social theory (Staeheli 2000), I would like to stress that the theoretical edifice proposed by Laclau and Mouffe is, first of all, a constitutive-theoretical one: it presents us with a theory of how the social gets constituted, namely, by way of signification. Laclau and Mouffe's formula thus, is that entities, such as the state or society, are always only preliminarily stabilized through a contingent set of ordering principles that maintain no substantial connection with the elements out of which the entity is presumably constituted (Laclau/Mouffe 2001: 113).

Laclau and Mouffe trace their theorizing back to Michel Foucault, yet refer mainly to his earlier works like *Archaeology of Knowledge* (Laclau/Mouffe 2001: 105) and refrain from treating

Foucault's genealogical reconstruction of modern political entities, in particular of the state. Foucault shares Laclau and Mouffe's skepticism regarding the substantiality, aptness, and significance of the category of 'state' (Foucault 2008: 77-78). However, in contrast to the latter, he makes two suggestions of how to empirically and historically reconstruct the constitution of the modern polity.

His first suggestion, most elaborately laid out in *Discipline and Punish*, is that the modern polity is based on a 'power/knowledge complex' which accords practices of observation and sanctioning paramount importance. According to this reconstruction, the modern prison and adjacent institutions such as asylums, hospitals, and barracks install a society-wide regime of observation through which the individuals' behavior can be controlled. In this 'panoptic' version of society, the polity relates to institutions of observation, most crucially the police. Unlike former ways of founding the polity, such as the symbolic demonstration of sovereignty on the occasion of rituals and capital punishments carried out in public, the modern polity emerges as a structure of observabilities effecting norm-obedience through punishment and pedagogical inculcation (Foucault 1976: 251-292).

However, a couple of years later, Foucault presents another, modified version of the constitution of the polity in his lectures on governmentality. He now argues that the crucial question for modern political thought in Europe has not only been how to exert control over society but also "how not to govern too much" (Foucault 2008: 13). Instead of relying on a panoptic penetration of society, according to this 'governmental' rationality, the polity should be based on a *laissez faire* maxim regarding societal processes deemed to be self-regulating (Foucault 2007: 99). Although Foucault points out that this new regime of governmentality never fully abandons the earlier juridical and disciplinary conceptions of the polity (Foucault 2007: 107), there is at least one major difference between the disciplinary and the governmentality paradigm of the polity: while the former principle positions state capacity as a power to *know*, the latter introduces the state as being expected to *retreat* from the absolute will to know. The secret of the modern governmental regime is that it can leave certain aspects of the natural flow of things to those things itself (Foucault 2008: 15-17). Paradigmatically, Foucault elaborates on the state's abstention from the will to know with the example of the emergence of modern political economy both as a set of practices and as an academic discipline. According to his argument, one important implication of the emergence of liberal political economy has been an insistence that state regulation cannot intrude into the inner 'mechanism' of competition without distorting that mechanism (Foucault 2008: 61, 82-83, 172-173). What, notwithstanding all the differentiations in the development of the liberal doctrine, is constitutive of liberalism, is the disinclination to address the state in its power and will to know, and instead to relegate the state's task to guaranteeing the formal-juridical framework necessary to create and maintain competitive markets (Lemke 1997: 126-256; Gertenbach 2007).

Without doubt, it is Foucault's ambition here to displace the state as the natural seat of power to govern through knowledge. Yet, one may argue that in this governmental denial of the state's ambition to know, there resides a conceptual element which points to a *symbolic* base for the state's continued salience that Foucault does not account for. This element crucially regards the state as the subject of sovereign debt. Nina Boy (2015: 11) formulates her critique of Foucault (referring to Tellmann 2011) in this manner: "Foucault's emphasis on *divesture and discredit* of the centralised power of the state runs somewhat counter the very successful *investiture* and *accreditation* that sovereign credit implies." While we thus receive a first indication from Foucault that the modern regime of the governmental state comes along with a kind of conscious neglect of crucial economic processes, such as those of the market (Foucault 2008: 61, 82-83, 172-173), we need to probe further the possibility that the *signification* of macro-economic processes, and particularly their *opacity*, might contribute more directly to the symbolic constitution of a certain form of sovereign polity.

The next section will trace this line of thought further, thereby also creating an entry point for the concept of 'trust' to intervene into the discussion about the symbolic constitution of modern political sovereignty. In differentiating Foucault's genealogical sequence, 'sovereignty' is not the obsolete and displaced mode of *Ancien Régime* power that Foucault (1976) sees in it, but is an attribution that is of utmost importance for the emergence of the modern polity as a polity based on a "collectively accredited" (Boy 2014: 310) form of debt.

3. The Emergence of the Debt/Sovereignty Nexus as 'Public Credit'

The social sciences, crucially including discourse-theoretical approaches, have dedicated much attention to the unveiling of the symbolic structure of modern western statehood, or more generally, conceptions of the polity. Particular attention has been paid to the modern Western polity as the other of colonial representations, as a racialized construction, a gendered construction, or as one constituting itself through body metaphors (Bhambra 2007, Connell 2007). Considerably less attention has been paid to the role of economic and financial flows in the discursive constitution of the modern polity. Of crucial importance in this respect has been a development "from sovereign debt being charged a far higher rate than commercial loans in the Middle Ages to circulating 'unsecured', that is, no longer requiring additional security in the form of either collateral or a high interest rate but trading merely on 'full faith and credit'." (Boy 2015: 4-5) According to Nina Boy, who has traced the co-emergence of modern understandings of sovereign statehood and the discourse on sovereign debt, this new form of state creditworthiness materialized first in Britain in the late 17th century, and more concretely, in the notion of 'public credit', that accompanied the emergence of modern understandings of the polity. Boy, in her discussion of various contributions to cultural theory dealing with the emergence of modern understandings of the political economy, the state, and society, points out that it has been the notion of 'public credit' to which the contemporary, ubiquitous notion of 'market confidence' must be traced back (Boy 2014: 304). In the context of the present article, her arguments can be rephrased as follows: 'public credit' is an early historical testimony of 'operating trust' (Endreß 2014) in the financial basis of modern polities.

Before elaborating on the ways that trust is implicated in modern sovereign creditworthiness (cf. section 4), let us look at Boy's argumentation in detail. The background of her investigation is mainly in literary studies. She looks into the coevolution of literary genres, literary criticism, and social imaginaries, that is, implicit, widely shared understandings of what society is that inform agency (Taylor 2002). Literary criticism thereby reveals itself as a particularly apt approach, because it is specialized on the "problematic of fictionality, characterized by the ambivalence of artifact and delusion" (Boy 2014: 301, her translation), and therefore sensitive to the role of the imagination in the constitution of society and the polity. Turning more specifically to the question of how sovereign debt became discursively constituted together with certain understandings of society and the polity in modernity, Boy discusses Patrick Brantlinger's (1996) book on *Fictions of State*. Brantlinger puts the emphasis on the hollowness both of the state and its debt as mirrored in fictional writing, arguing that the modern capitalist state as well as dominant beliefs in the latter's creditworthiness have been exposed in their groundlessness, yet also affirmed, in British novelistic literature so that 'fiction' figures both as the main characteristic of the state's 'public credit' and as a shorthand version of its critique (Boy 20014: 305-306).

Boy maintains that it is precisely this oscillation between the affirmation and the critique of sovereign debt as fiction that needs to be pinpointed (Boy 2014: 306). She argues that modern society involves a specific type of validity claim whose plausibility rests on its open and acknowledged fictiveness, so that critiques of the fictive and groundless character of society in fact testify to the circumstance that those fictions – be it of the state, of society, or of sovereign debt – work. According to Boy, this type of validity claim can be most prominently depicted in 'public credit,' on the one hand, and in certain literary genres, on the other hand (which also provides an additional explanation of why literary criticism maintains a diagnostic relation to questions of the efficacy of sovereign debt, and collectivity fictions more generally). For instance, the novel's claims of reality do not rest on truth but on 'verisimilitude', that is, on the ambition to create characters and worlds that *could* exist even as they do not, so that the novel, precisely as it attempts to be realistic, can be exposed to the reproach of lying. 'Realism' takes into the bargain its own refusal as being a lie because that refusal testifies to its verisimilitude (Boy 2014: 310-311). Quite similarly, 'public credit' gained momentum with the multiplication of the critiques of its groundlessness, because it was these critiques that most effectively testified to the, if scandalous, 'working' of financial fictions (Boy 2014: 312).

For the purposes of the present paper, which is concerned with current changes in understandings of the sovereignty and viability of the polity under the impact of the sovereign debt crisis, one of the most important consequences of Boy's argument concerns the collateral of state debt. Popular analogies drawn between private households and national economies that capitalize on the obligation to not live beyond one's means are based on the idea that for each debt there has to be a security: the collateral. Criticisms of sovereign debt such as those referenced by Boy (for instance, Brantlinger 1996) regularly expose the absence, or 'fictiveness,' of an adequate collateral in sovereign debt. However, if we follow Boy's reconstruction, according to which the fictive character of sovereign debt is built into its own validity structure, then the problem with the collateral is not that it is fictive, but that under conditions of a reflexive fictiveness of sovereign debt, the collateral must be concealed, or rather, kept in virtuality.

Boy (2014: 302) cites an early example of such virtualization of the collateral. After the sovereign default of the city-state of Florence in 1345, the city's obligations were pooled in one fund of securities that could be traded provided that a buyer was found. Through the depersonalization of sovereign debt a market in sovereign debt had emerged. However, this move also changed the collateral into a virtual good and shifted its promise of value on to the (potential) buyers of the securities: a public of potential buyers now vouched for the creditworthiness of the state, while the counterweight itself – that is, those assets that might have balanced the city's debts – were no longer of interest for the value and valuation of the securities. The collateral was thus displaced and virtualized through the introduction of a market which shifted the question of what the collateral of a debt is to the question of where to find buyers for that debt.

This example illustrates a more general discursive mechanism at work in the simultaneous and co-dependent emergence of sovereign debt and sovereign polity. The polity can deem itself sovereign precisely as its debt circulation is not inhibited by critical questions regarding the collateral (or its absence). In other words, the virtuality of the collateral – or, as the critics would have it, its fictiveness – vouches for the viability of the polity as sovereign, that is, of being able to generate its budget from circulating its debt: "Both public credit and political authority thus converge as *effective* fictions" (Boy 2015: 13). Conversely, whenever a situation arises where demands to balance sovereign debt against a state collateral cannot be deflected any longer – that is, when the collateral is forced into explicitness – a polity's sovereignty is at risk. The problem with the virtuality of the collateral is thus not its fictiveness, because the latter, together with its critique, has become part and parcel of modern societies' self-conceptions – it is, in Boy's (2014: 310) words (borrowing from Koschorke 2002), the effect of a "collective accreditation". "Collective accreditation" must be understood not as a substantial belief shared by concrete individuals, but as a discursive effect emerging from the articulation (in Laclau and Mouffe's terms) of the factual market circulation of sovereign debt with the frequent critiques of its 'fictiveness.' It therefore crucially implies that the collateral remains implicit and virtual, and in *this* sense fictive, because the sheer possibility of it becoming explicit would displace the logic of the collective accreditation of fictions. In other words, if the collateral is forced into the open its justification can no longer be based on its fictiveness. This is precisely what happened to near-defaulting states in the Eurozone in the wake of the world financial crisis beginning in 2007.

4. Sovereign Trust and Moralization

The last section has referred to research that highlights how modern political sovereignty has been discursively articulated with a state's ability to raise its budget on the grounds of market flows that at least some contemporaries regarded as being of an utterly opaque and non-transparent nature. This represents an additional indication that Foucault's reconstruction of statehood as liberal governmentality, demanding from the state neither to know nor to act too much, tells only half the story, because it effaces the direct symbolic contribution of those non-transparent economic flows to modern conceptions of a polity's sovereignty. In order to understand that mechanism better, I propose to reconstruct it in terms of trust.

In general terms, 'public credit' points to an extremely fragile arrangement of trust. The collateral of sovereign debt is always only virtual, being disentangled from the polity and diffused through a market for sovereign credit. The core question thus concerns the dividing line between the possibility and the impossibility of trust, that is, the virtuality or the explicitness of the collateral. Among theorists of trust, Anthony Giddens (1994) stands out as the one who has dedicated deliberate attention to the difference between virtual and explicit modes in the operation of trust, namely through his notion of 'reflexive trust'. Giddens argues that contemporary societies are undergoing a process in which, so far, the assumed points of reference for everyday action that have been unproblematic are increasingly challenged, and are hence forced into reflexivity. Crucially, this applies to trust in expert knowledge: while in 'first' modernity, experts played the role of providing specific bodies of knowledge on societal problems that individuals experience as problems of action orientation, under conditions of reflexive modernization that same knowledge faces increasing criticism, being exposed as transitory, imperfect, and subject to constant revision. What, according to Giddens, conforms to this societal constellation is the transformation of naïve trust into 'active trust,' that is, the capacity to refer to experts' knowledge strategically, a precondition for which is the disentanglement of expert knowledge from expert authority (Giddens 1994: 124-133). Martin Endreß has suggested that such 'reflexive trust' might be understood as a 'mode' of trust in general that can be understood as a "resource of action that can be implemented in a calculated way" (Endreß/Rampp 2013: 154, translation AL; also Endreß 2012). It is thereby the calculative aspect that makes reflexive trust differ from two other modes, namely, 'operating trust' (*fungierendes Vertrauen*) as a conceptual and mostly pre-reflexive a priori that enables the individual to situate himself/herself with respect to the (social) world and to the self, and 'habitual trust' as the basis for the routine grounds of everyday action (ibid.). Giddens' and Endreß' conceptualizations can serve as a contrast foil to elaborate on the peculiarities of sovereign credit as a mode of trust precisely as the latter cannot be categorized into either reflexive or pre-reflective modes of trust. The point about the literary reflection on 'public credit' since its inception was the "effective fiction" of public credit that withstood its "ineffective denunciation" (Boy 2014: 312, translation AL). Public credit is operative precisely insofar it is a fiction. Translated into terms of trust, this brings about a constellation in which operating trust is placed in an authority *despite* the circumstance that this authority has been critiqued and disassembled. In this way, operating trust in public credit appears as the *outcome* of a reflexive questioning of trust. This can be analogized with repeated historical scenes – "hallmarks of sovereign credit" – *after default* that Boy depicts: "the first market in government debt in Medieval Florence, the creation of the Bank of England and the first paper money era in 1797 were all born out of insolvency." (Boy 2014: 312, her translation)

In order to make sense of this counterintuitive constellation, in which trust in sovereign debt is maintained although, or even as, it is being exposed to the reproach of baselessness, it is worthwhile to turn to Niklas Luhmann as a theoretician who has concerned himself with the unlikeliness of the social order. In his elaborations on the "readiness to trust" in persons and social systems, Luhmann argues that the willingness to place trust is not the corollary of a sense of security but, on the contrary, an operation that substitutes for absent security with a moral inflation of confidence:

> "the security of trust consists […] in the fact that a breach in trust must result in its withdrawal and hence in a radical change in the relationship [between trusted and truster]. Disappointment is not played down but, on the contrary, is exaggerated in moral terms into an event which its extreme nature and exceptional baseness makes improbable. – The problem of readiness of trust, accordingly, does not consist in an increase of security with a corresponding decrease in insecurity: it lies conversely in an increase of bearable insecurity at the expense of security." (Luhmann 1979: 79-80)

Two points are at stake here. First, trust is a functional equivalent to knowledge. Luhmann points out that "highly differentiated societies, which need more trust for the reduction of their complexity than simple societies, […] must therefore make more demands on the readiness to trust inherent in their systems" (ibid.: 84), the reason being that in differentiated societies social systems cannot reflect the complexity of the environment within themselves. In other words, trust replaces security because it is "more effective" in the stabilization of expectations than mere cognition (ibid.: 79). This argument opens Foucault's diagnosis of a 'governmental' form of governance, which puts restrictions on any ambition of a polity to base its rule on knowledge, for a productive reformulation, namely, that governance through knowledge is replaced by governance through trust.

Second, if trust is not primarily about knowledge, it must be more than mere cognition. Arguably, the notion 'moral' in the quotation above is key here. The stabilization of operating trust in sovereign debt against profound demonstrations that the basis of that trust is hollow is an outspoken moralizing operation in which the act of placing trust is legitimate because it *must not* be disappointed. In other words, what stabilizes trust in sovereign debt in the face of all its deconstructions is a *moralization of the act of trusting itself*. This is an important amendment to sociological conceptualizations of trust in general, which usually, as Giddens, Endreß, and others do, distinguish between prereflective and reflexive forms of trust, a distinction which is, however, limited insofar as it is based on a cognitivist understanding of trust alone. The notion that trust might be legitimized and motivated neither because it is reflectively judged as rational nor because it is pre-reflectively inculcated or because it reduces cognitive complexity, but because it is deemed *morally right*, provides an important insight into the conditions under which polities are trusted to be reliable lenders, and sovereign debt counts as risk-free. **[2]**

Thus, the problématique that Nina Boy depicts can be rephrased from the viewpoint of a sociology of trust as follows. Why has the baselessness of trust in sovereign debt that has been so often critiqued, and of the financial sovereignty of the state as such, not led to a profound destabilization of the modern polity's creditworthiness? How can it be that sovereign bonds, since their inception exposed and criticized as mere 'fictions' and 'imaginations,' have morphed into securities that are treated by financial economists as risk-free assets (Boy 2015: 7-10)? The cultural-theoretical answer elaborated above is that the concept of sovereign debt is based on the virtualization of the collateral as the precondition for its operative fictiveness. The translation of this argument into the sociological terminology of trust, in turn, suggests that that fictiveness is the result of a discursive operation in which cognitive expectations are channeled into normative, highly moralized expectations. They form a constellation in which trust in state securities, being a more effective mode of the stabilization of expectations than knowledge about them, is stabilized through a moralization of the act of trusting itself which, in turn, enables the polity to become constituted as financially, morally, and ultimately politically sovereign. Through a moralization of the act of trusting, the collateral of sovereign debt can remain in a virtual state. I would like to term this constellation by way of shorthand

[2] This argument can be aligned with Marieke de Goede's (2005) genealogical reconstruction of finance as a process in which financial operations became morally purified, for instance, through being morally distinguished from gambling.

'sovereign trust.'

In the next section I will turn to current challenges that this moral stabilization of trust in sovereign debt that marks long periods of the history of the modern nation-state faces. The question is, how have the polity, and the state in particular, become re-articulated vis-à-vis sovereign trust since the outbreak of the sovereign debt crisis in the EMU?

5. Challenges to Sovereign Trust: The Sovereign Debt Crisis in the EMU

This section turns to discursive effects stemming from the dynamics of sovereign trust under changing political-economic conditions in the Eurozone, commencing with the introduction of the Euro as the single currency of the EMU in 1999 and ending on Mario Draghi's announcement on January 22, 2015 that the ECB will buy EMU member state bonds worth 60 billion Euros per month until at least September 2016. Its main aim is to suggest hypotheses that, first, illustrate the applicability of the genealogy of sovereign trust elaborated on above and, second, frame the current sovereign debt crisis in the EMU as a struggle over the articulation of trust in sovereign debt with the virtuality, or on the contrary visibility, of its collateral.

5.1. The Introduction of the Euro: Relocating Sovereign Trust

The introduction of the Euro can be characterized as a discursive attempt to shift the seat of the mechanism of sovereign trust from the nation-state to the supranational level. Viviana Zelizer has argued that the unification of currencies is closely aligned with the consolidation of the nation-state, the national government, and national sovereignty within the confines of the national borders (Zelizer 1994: 13-18). If this establishment of a single currency – which, as Zelizer shows with the example of the U.S., was a much more arduous and slow process than most thought – can be seen as a decisive characteristic of the consolidation of national sovereignty, then the EMU was rightly seen by its proponents as a key device to deepen European integration and to work the European Union toward a regular polity, (European Comission n.d.) **[3]** in particular with a view to the fact

[3] I would like to thank Spyros Bakas for referring me to this source.

that all states of the European Union according to the *Treaty on the Functioning of the European Union* as part of the Lisbon Treaty (2009) are legally supposed to join the Euro at some point in time (European Union 2009).

With respect to sovereign debt, however, the EMU appeared as a much less consolidated or homogeneous political unit than the nation-states after whose model the Euro was introduced. On the one hand, the single currency did not come along with a single sovereign debt. Thus, the European polity lacked a crucial instrument of sovereignty because it could not raise its budget through selling sovereign bonds. With the introduction of the 'excessive deficit procedure' as part of the Stability and Growth Pact, the EMU, it is true, introduced the concept of supranational control over the member states' fiscal behavior, yet this measure (which remained ineffective, Mortensen 2013) did not compensate for the lack of a 'Eurobond.' On the other hand, the new currency was strongly linked to the political fate of the European Union as such. While the political rationale of the currency was to symbolically anticipate a future European polity and to inculcate a European identity in its users (Meier-Peri et al. 2003) **[4]**, the whole significance of the Euro surfaced only when it was in danger. Angela Merkel's prediction that "If the Euro fails, Europe fails", which she formulated on 26 November 2011 before the German Federal Assembly, responded to increasing concerns about the viability of sovereign debt of some of the EMU's member states, thus articulated fairly clearly those characteristics of trust that, according to Luhmann (1979), make it superior to knowledge, namely, the stabilization of expectations through normative, or rather moral, boost. The point in Merkel's warning was not that it was a warning but that it articulated through its moral inflection a key principle of sovereign trust.

Thus, the introduction of the single currency led to a constellation in which a genuine European sovereign debt did not exist institutionally, but the moralization of sovereign trust, hinging on the virtualization of the collateral, was clearly relocated onto the supranational level. The discursive effect thus consisted in the constitution of a symbolic finality of the EMU as the EU *before* the two of them were institutionally coterminous: the Euro stood, as it were, for an anticipated condition to be reached in the future. Accordingly, any challenge to the EMU's agglomerated creditworthiness posed a threat not only to the present but also to the future of the project of European integration.

[4] I would like to thank Spyros Bakas for referring me to this source.

5.2. The Emerging Sovereign Debt Crises in Europe since 2009

While in Europe, as in the United States, it was first the bank system and large institutional investors that in the wake of the 'subprime crisis' saw themselves confronted with a withdrawal of trust, the crisis scenario quickly morphed into one in which the crisis was mainly framed as one of trust in sovereign debt. German minister of finance Wolfgang Schaeuble thus merely expressed a common concern when he stated, "The key issue for the euro zone is the trust of the financial markets." (Focus 2011) While this political shorthand version equates the viability of sovereign debt with the 'trust of the financial markets', it testifies to a discursive shift having taken place which, however, usually escapes attention. It is connected with the discursive mechanism of sovereign trust elaborated on above. As soon as states cannot sell their sovereign debt on bond markets, two things happen at the same time: first, the collateral resurfaces in public discourse as a result of the questioning of a polity's creditworthiness, and the question is raised whether a polity can 'afford' its debts; and second, the act of trusting assumes an openly moralized significance. This is a purely discursive effect whose logic has nothing to do with the question of whether a state's balance sheets were faked or not upon entry into the Eurozone. According to Luhmann (1979: 79), as explained above, trust hinges on the exclusion of the possibility of a disappointment of expectations as an utterly immoral scenario; thus, moralization is inflated as soon as trust is gone. The decision to place trust must be defended retrospectively: the withdrawal of trust indicates that it was justified to place trust in a polity because it gives testimony that that polity was *once* morally viable. Through this discursive articulation, "[t]he trusting systems are, as it were, relieved of responsibility for their trust." (Luhmann 1979: 84)

Seen from this angle, the questioning of trust in some of the EMU states' creditworthiness not only brought them into fiscal calamities, but also retrospectively vindicated the moral rightness of trusting them in the first place, and with that the whole project of the EMU. The EMU's shortcoming of not being a sovereign polity because it never issued sovereign debt (cf. 4.1) now turned out to be an asset: precisely because it was not the EMU but some of its states that nearly defaulted, the EMU as such could be retained as object of trust. Accordingly, the challenge of the European sovereign debt crisis split up into two problems that, in discursive terms, were interconnected as follows: the withdrawal of trust from some EMU member states maneuvered them into a condition in which sovereign trust was replaced by outside control; and this was the precondition for retaining the Eurozone as a whole as a seat of sovereign trust.

5.3. The Introduction of EFSF and ESM

At the beginning of the sovereign debt crisis, the EMU did not seem to be capable of deflecting sovereign defaults of some of its members, because the Eurozone features a No-bailout Clause prohibiting the rescue of EMU countries through direct loans given by other EMU countries, including such as allocated by the ECB. **[5]** However, the EU managed to circumvent this clause through the establishment of two new financial institutions, namely, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). These new institutions, which were set up astonishingly rapidly, were not devised to 'bail out' countries but to restore the 'trust' of a market audience so that sovereign debt could ultimately be traded again in the international bond markets (Donnelly 2014). Near-defaulting countries can apply for financial guarantees from those institutions (which are, in turn, guaranteed by all of the member states of the Eurozone) in order to manage their debts; yet access to those funds is conditioned by 'structural adjustment' measures modelled after those of the IMF (which functions as an institution of financial guarantee alongside the EMU member states), the aim being to transform the macro-economic outlook of those countries, and in particular to reduce government spending. The rationale is that, considering both financial guarantees and structural adjustments, lenders can regain confidence so that the sovereign bonds of the countries in question can reenter the international bond markets (Regling 2012, Strange 2012).

While EFSF initially was designed to temporally provide guarantees for debtor countries' loans, ESM has no clear date of expiry. Yet, the rationale behind the implementation of ESM was not just the greater maximum guarantee nor the undefined, and in any case much more extended, period of operation in itself – ESM actually was not meant to bailout states but to prevent the necessity to do so (Donnelly 2014). Rather, the ECB and creditor governments anticipated that the sovereign debt markets might continue to distrust southern European countries' financial capacities, with the inevitable results of intolerably high interest rates for sovereign debt or even sovereign default (Hennessy 2014, Nicoll 2011). As a corollary, global financial markets and rating agencies were accorded the most important authority over whether ESM actually would manage to help states regain their political viability via market viability of their bonds (Kaedtler 2014).

However, the most important discursive effect in terms of the articulation of trust in sovereign debt with its collateral was that the precondition for regaining the trust of the bond markets was

[5] "'No bail-out' clause Article 125 of the Lisbon treaty makes it illegal for one member to assume the debts of another." (Financial Times Online Lexicon n.d.)

discursively coupled to the observation of certain fiscal policy measures that forced the collateral of sovereign debt into the open. This constellation fundamentally altered the discursive articulation of trust in sovereign debt, which morphed from sovereign trust as conceptualized above to a new regime in which trust was rearticulated in terms of control over the collateral. EFSF and especially ESM suspended the necessity for states to circulate their debt on bond markets, yet did so with the ultimate goal of restoring this capacity. The access to ESM thus was envisioned as an anticipation of regaining the market viability of sovereign bonds, but the anticipation, in turn, was conditioned by the observance of fiscal policy measures that put a state's creditworthiness in direct relation to state budgeting. This way, the collateral of sovereign debt became articulated in terms of austere state budgeting. While this was presented as the only alternative, one has to consider Boy's cautioning, drawing on historical examples, that "the perception of sovereign safety is not necessarily linked to austere fiscal policies" (Boy 2015: 11).

The specificity of trust described by Luhmann, namely that it is a functional equivalent of cognitive assessment, thus proved itself through a transformation of sovereign trust into control over state budgets. EFSF and ESM, politically intended to restore 'market trust' in near-defaulting states, have had rather paradoxical discursive effects when it comes to sovereign trust. The paradox is that sovereign trust cannot be regained precisely as long as the political conditionality is operative, because that conditionality exposes the collateral. As long as the collateral is articulated in terms of budget control, it cannot reassume the 'fictive' quality that is characteristic of sovereign trust, where the collateral is never defined but always only implied. I suggest calling polities that undergo this kind of transformation of the preconditions for being trusted 'collateralized polities' because their ability to mobilize credit depends on the constant interrogation of the collateral they can mobilize.

Thus, in discursive terms, there is no continuity between political conditionality of whatever political direction or ideology and the reemergence of sovereign trust. The act of 'leaving the rescue umbrella' is not the *result* of a process in which 'market trust' has been regained but the *precondition* for sovereign trust to reemerge. Seen from this angle, the economic recovery reported from some countries formerly under the rescue umbrella (mostly from Ireland and more recently Spain), which is usually attributed to the effects that changed fiscal policies have had, from a discourse-theoretical perspective ought to be seen as the effect of a liberation from explicit political conditionalities which allowed the collateral to move back into virtuality.

5.4. The 'Fiscal Compact'

The introduction of the ESM was from the start very tightly connected to the EU's and the ECB's macroeconomic designs. ESM created a market observability of the Eurozone as a whole because its rating combined the ratings of all Eurozone creditor states (Gocaj/Meunier 2013: 249). It functioned as a new epistemic device that allowed the creditworthiness of the Eurozone to be judged as a whole as these instruments were made subject to credit ratings. **[6]** What resulted from the introduction of the ESM was, thus, an articulation of a bond market observability of the Eurozone's creditworthiness with specific budget prescriptions that conditioned access to the ESM. This way, ESM underlined the understanding that the EMU as a whole is the seat of sovereign trust; yet at the same time, it also anticipated a regime of fiscal governance in which all EMU member states become subject to a constant interrogation of their collateral.

This showed most clearly in the introduction of the *Treaty on Stability, Coordination and Governance in EMU* (the so-called Fiscal Compact) which was supposed to effect "the inclusion of a balanced budget in all member states' constitutions" (Pianta 2013: 153) and which was framed as a lesson that had been learned from the near-default of several Eurozone member states. The Fiscal Compact thus aims at an "introduction of the rules of the fiscal discipline into the national law to restrict excessive spending during good times and over the political cycles [which] is expected to further constrain the governments of member states" (Vilpišauskas 2013: 365).

With respect to the question of whether this arrangement is helpful in restoring the preconditions for the emergence of sovereign trust, from a discourse-theoretical perspective as suggested here, the answer is clearly no. The Fiscal Compact aims at a perpetual definition of the collateral of sovereign debt in the EMU in terms of a strict observation of budgetary practices. It thus expands the de-virtualization of the collateral to *all* EMU member states, because neither any individual state nor the EMU as a whole is now considered capable of wielding sovereign trust. In particular, and even as it appears to be a political return to the Stability and Growth Pact and its heralding of fiscal discipline (Mortensen 2013), it effectively threatens to undermine the fragile distinction between near-defaulting states and the EMU as a whole on which the possibility to retain sovereign trust in the EMU consisted of in the first place (cf. 5.3). The discursive effect that the Fiscal Compact has stems not from the generalized political prescriptions as such but from the circumstance that they

[6] This interpretation complicates the diagnosis that the main effect of EFSF and ESM was that economically strong countries could strengthen their comparative national advantages to the disadvantage of less strong countries (Michael-Mastas 2012, Fouskas/Dimoulas 2012, Cohen 2012, Vilpišauskas 2013, Hennessy 2014): while, undoubtedly, Germany and the other creditor countries and their banking systems made sure to secure the best guarantees for offering credit, it has to be added that the criteria that were to be met by the debtor countries in order to be given access to EFSF and ESM funds were institutionalized in such a way as to give transnational credit rating agencies great symbolic power in the process of verifying creditworthiness in the Eurozone. Kaedtler 2014 for a more encompassing diagnosis of this epistemic shift.

have been rigorously introduced only as a consequence of the sovereign debt crisis, as if the EMU did not trust its own constituency. The discursive logic of the Fiscal Compact couples trust in sovereign debt to fiscal discipline so that the latter comes to represent the collateral.

5.5. The Announcement of the European Central Bank to Buy EMU Sovereign Bonds

The most recent point in the transformation of sovereign debt in the Eurozone may be depicted in the announcement of the European Central Bank's president Mario Draghi to buy EMU sovereign bonds within the framework of an 'expanded asset purchase programme:' "Aimed at fulfilling the ECB's price stability mandate, this programme will see the ECB add the purchase of sovereign bonds to its existing private sector asset purchase programmes in order to address the risks of a too prolonged period of low inflation." (European Central Bank 2015a) In his introductory statement to the press conference held on the day of the announcement, Draghi stated that "Fiscal policies should support the economic recovery, while ensuring debt sustainability in compliance with the Stability and Growth Pact, which remains the anchor for confidence." (European Central Banck 2015b) Although it is not clear whether 'confidence' referred to bond market trust in sovereign debt, Draghi's announcement might be interpreted as an attempt to wrest away power over the definition of sovereign creditworthiness from the international markets and the rating agencies which by that time had lost some of their own credibility and trustworthiness.

If one shares this interpretation, from a discourse-theoretical point of view, the ECB's announcement appears as a disarticulation of sovereign debt and financial and fiscal observability that was introduced via the ESM and the Fiscal Compact, resembling a discursive counter-claim that challenges the logics of political conditionality of EMU sovereign debt heralded by the Fiscal Compact. If the bonds of EMU member states (granted that they are not under any rescue umbrella) are announced to be bought on a regular basis, a symbolic center from which to reconstruct sovereign unity is reestablished. The ECB assumes the position not only of a *lender* of last resort, but also of a *creditor* of last resort, because it is ultimately the ECB that now has to be trusted. Apart from a very general reference to the GSP and its policy prescriptions, the ECB denies defining any collateral as conditionality for buying government bonds. Accordingly, the collateral of sovereign debt is relocated back to virtuality, and sovereign trust becomes (in principle) possible again. From this point of view, the ECB's announcements appears as a suspension of the control dynamics heralded by the Fiscal Compact and as a re-valorization of the discursive logic of sovereign trust.

6. Conclusion

The present condition of the sovereign debt crisis in the EMU resembles a deadlock between two modes of trust in sovereign debt as a constitutive element of the modern polity. This paper has reconstructed a discursive articulation, characteristic of the historical functioning of sovereign debt in modern polities and termed 'sovereign trust,' that works through a virtualization of the collateral based on a moralization of the act of trusting in sovereign creditworthiness. By way of contrast, the new measures heralded by the EMU (and the EU more generally), in particular EFSF, ESM and the Fiscal Compact, may be framed in terms of 'institutionalized distrust' in Martin Endreß' (2012) sense. According to Endreß, institutionalized distrust is a precondition for the emergence of trust in institutions and organizational procedures, such as the political administration, institutional bodies like unions, or legal bodies such as courts: institutionalized distrust creates the conditions upon which 'trust cultures' can emerge, that is, a more diffuse und less alert type of trust that nevertheless is fundamental for the cohesion of society (Endreß 2012: 93-94). The rationale that through minute control of the EMU member states' 'fiscal discipline' some sort of 'market trust' in the EMU might reemerge is obviously based on this hope.

Endreß' concept of institutionalized distrust refers to regular institutions in democratic societies which belong to their usual checks and balances and thus have no expiry date. In the case under discussion in this paper, we can witness a shift from crisis-coping institutions that had a clear date of expiration (the EFSF) to temporally non-limited institutions (the ESM) whose logic then was generalized to the whole member state constituency (the Fiscal Compact). This trajectory seems to herald a new constellation in which 'distrust' is clearly institutionalized, which markedly differs from the scene of 'public credit' in that it is based on a constant visibility and interrogation of the collateral, creating a new political animal, the 'collateralized polity.' Unlike modern polities, which gain their budgetary sovereignty from the attribution of being creditworthy in the absence of a clearly defined collateral, collateralized states must seek their financial resources against the background of a constant interrogation of their creditworthiness. It remains to be seen whether the ECB's counter-discursive claim to buy EMU member states' sovereign bonds without any explicit indication of their collateral can shift the pendulum back to sovereign trust.

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