

Acknowledgements11

Chapter I: Introduction to the Eurozone Crisis: Where there’s smoke, there’s fire 13

The European Union: A Model for the World?15
Understanding the Eurozone Crisis: Layout of Book20

Chapter II: European Integration: The Road to the EU and the Euro25

The Origins of European Integration25
Nationalist versus Federalist Tensions: The Evolution of the European Union (1957-2009).....27
How the EU Works.....29
 The EU’s Governance Structure.....30
The Euro as a Symbol: Creating the Currency of a(n) EUtopia.....33
 The Symbolism of the Euro’s Design35
Rationale for the Euro: An Economic House of Cards?38
Evolution of Monetary Union.....39
Conclusions.....42

Chapter III: The Flawed Economic and Political Architecture of the Eurozone45

Why Have a Common Currency at All?46
 The Structure of Europe’s Monetary Union – An Optimal Currency Area?49
 The EU’s Monetary System: The Eurosystem59
 Banking Instability and Sovereign Risk in the Eurosystem63
 Why Is There No Political Solution for Economic Integration?66
 Rodrik’s Trilemma67
Conclusions: The Effects of Europe’s Governmental, Economic, and Sociopolitical Flaws.....71

Chapter IV: Of ‘PIIGS’ and ‘GIPSIs’: Pre-Crisis Structural Imbalances	75
The Ant and the Grasshopper?: A Narrative of the Eurozone Crisis	76
The ‘Ants’: Why Does German Policy Often Seem at Odds with Much of Europe’s?	78
Cultural Differences	79
National Self-Interest.....	80
Economic Ideology	81
The ‘Grasshoppers’: Why Have They Fared So Much Worse in the Eurozone?.....	82
Hours worked: Laziness or Poor Productivity?	84
The Role of Corruption and Effective Governance	84
EU Compliance: Did ‘Good’ Europeans Fare Better than ‘Bad’ Europeans?	85
Business Friendliness: Did Red Tape Hurt or Help?	86
A Culture of Credit	87
Flight of the Bumblebee: Pre-crisis Structural Imbalances and Their Influence in the Eurozone	91
Structural Imbalances: Trade Imbalances, Productivity Levels and their Influence on the Credit Crisis	91
Private and Public Debt-GDP	103
Country Specific Structural Imbalances	104
Greece.....	104
Ireland.....	108
Portugal.....	111
Spain.....	112
Italy.....	114
Cyprus.....	116
Conclusions.....	118

Chapter V: Misperception of European Risk, Market Reactions and Policy Response – A Timeline of the Eurozone Crisis..... 121

Introduction.....	121
Timeline of the Crisis.....	125
October 2009 to July 2011 – A Period of Denial, Anger, Credit Guarantees, and Bailouts.....	126

July to December 2011: A Period of Bargaining and Depression as the Economic Crisis evolves into a Political One	131
December 2011 to March 2013: A Period of Acceptance – Recognizing the Need for Structural Reforms	140
From Financial Crisis to Political Crisis	151
A Greek Popular Revolt: The 2015 Referendum	154
Conclusions.....	164

Chapter VI: Counterfactuals, Costs, and Conclusions167

Where are We Now? Economic and Political Costs	168
Economic costs.....	169
Austerity versus Stimulus.....	176
Political Costs.....	182
Public Attitudes Towards the Euro	184
Public Attitudes During the Eurozone Crisis	188
The Rise of Euro-Scepticism.....	191
The Eurozone Crisis and Anti-Semitism	193
Reforming The Eurozone’s Economic Architecture	195
The Banking System	195
How Would the Banking Union Work?	196
Fiscal Union	198
Conclusions: Economically, the EU needs political union; Politically, EU leaders cannot afford it.	200

Index207