

POLS/ECON 409 · *The euro, austerity, and crisis, Part 1*

European Commission	Locke	Schumpeter
troika	Hume	time inconsistency
ordoliberalism	Smith	central bank independence
monetarism	public choice	centralized wage bargaining

1. Why did Europe switch to austerity from Keynesian stimulus in 2010? Did the Germans ever get on board with Keynes? What about the ECB?
2. How did the Greek economy get into trouble in the wake of the financial crisis? How does this story differ from those of Ireland, Spain, Italy, and Portugal? Be specific. Why does Blyth say that Spain is Ireland “writ large” and Italy, Portugal?
3. What role did contagion play in spreading the Eurocrisis? What role did the euro itself play? (What might have happened differently if, say, Greece, Ireland, or Italy hadn’t joined the euro in the first place?) Who are the “troika,” and what was their solution to sovereign debt crises on the European periphery?
4. Why did so many commentators, especially in the US and UK, treat Greece as a synecdoche for Europe, welfare states, and Keynesianism? Does Greece represent the logical outcome of Keynesian demand management, or not?
5. How did the creation of the euro encourage banks to lever up on sovereign and private debt from the European periphery? How, in Blyth’s terms, did banks become first “too big to fail” and then “too big to bail”?
6. Monetary issues have been a problem for the EU since the 1970s. What problems did separate currencies within the EU cause? And why does Blyth call the euro a “monetary doomsday device”? Why is it dangerous to issue sovereign debt in a “foreign” currency like the euro? What, according to Blyth, is the real purpose of austerity in the eurozone?

7. Do the origins of the debt crises in Europe suggest comparative evidence for or against any theories explaining the US financial crisis? Taking the opposite comparison, how would the US handle (or avoid) its own version of the “euro crisis”?
8. In what way does modern advocacy of austerity echo early liberal political economists’ arguments? Have the intervening centuries shed more light on the original austere claims? How have austerians adapted in response to the historical record?
9. What is German *ordoliberalism* according to Blyth, and how has it shaped the postwar German economy? What problems result from the export of ordoliberal economic policy to Germany’s trade partners?
10. Make the best case you can for austerity – either generally or under specific conditions. Now make the best critique of that case you can, either from a Keynesian or other perspective.
11. How did monetarism and public choice theory critique Keynesian monetary theory? According to public choice theorists, what is the time inconsistency problem in monetary policy, and what is the solution? What were the political consequences of these academic theories?
12. What are the premises and problems of Alesina *et al*’s theory of expansionary austerity? What do the case studies and statistical analyses of putative expansionary austerity regimes show? Did it matter, politically, if the theory or econometrics of expansionary austerity were right?
13. Why does Blyth say that democracy is inimical to the gold standard? Why does he consider public choice approaches to governance corrosive to trust and the European Union project?
14. Drawing on the 1920s and 1930s experience of austerity, what’s the outlook for Europe in the 2010s?