POLS/ECON 409 · *The euro, austerity, and crisis, Part 2*

Basel II	banking union	fiscal union
Troika	headline inflation	core inflation

1. According to Eichengreen, what is the nature of the historic bargain behind European integration: who are the key players, what did they want, and what did they get?

2. In Europe, economic integration proved easier to achieve than political integration. What are the consequence of this for the euro and for economic policy?

3. In what ways were European policymakers and investors naïve about the consequences of the euro? How did this naïveté fuel the European financial crisis? Why European banking regulation fail to prevent the European crisis? Why does Eichengreen say that Europe's crisis was a "banking crisis" from the start? Would a European financial crisis have happened anyway without an American trigger?

4. How did the euro alter trade competition among European nations? How does this dynamic differ from competition among countries with independent national currencies?

5. Eichengreen suggests that in 2010, European policy makers constrained by the inflation-phobic ECB should have implemented stimulus in the most fiscally-sound eurozone countries. Does this seem politically or ideationally feasible, either in this instance or generally in the EU? (Side question: which mistakes made by European actors can be attributed to faulty economic understanding?)

6. Elected officials in Ireland and Spain faced a impossible dilemma: given the ECB's aversion to haircuts for bank investors – and its threat to cut off liquidity if private bondholders were wiped out – national governments seemed forced to take over their bank loans, converting a financial crisis into a sovereign debt crisis. This further increased governments' financial dependence on the Troika, which attached recession-inducing strings that kept sovereign debt from shrinking back to managable levels and the crisis itself going indefinitely. Had you been prime minister, how would you have dealt with this impossible position?

7. What have we learned about central banks, central bank independence, and central bank conservatism? Does central bank independence really produce lower inflation "at no real cost"? What political issues does central bank independence ignore? Can central bankers act separately from politics? Where does central bank conservatism come from, how does it vary, and what difference does it make? Was the international shift to more independent central banks a historic mistake? What would happened if – as some economists suggest, and the European Stability and Growth Pact seems to desire – overall *fiscal* policy were delegated to an "independent" commission?

8. What should Europe do about the euro? Should it pursue greater fiscal and political union? Reshape the ECB? Reform the European Parliament and/or European Commission? Include or exclude eurozone members? Abolish the euro altogether? (Much has happened since the 2010s: feel free to adapt your answer to the post-Brexit, post-pandemic, post-Atlantic-alliance world if you would like.)

9. Adolph argues that political economy models ignoring the interaction of political agents and political institutions misunderstand the effects of agent characteristics and institutional rules. What does he mean? Can you think of examples of these sorts of interactions from the course?

10. Eichengreen concludes serious financial crises and subsequent major recessions can be mitigated but not avoided, despite the ability of scholars and policymakers to learn from the historical record. Why does he think this, and what can we do to address the problem? What are the missed opportunities and underappreciated problems in the most Great Recession? What about in subsequent economic crises?

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