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What Really Ails the Eurozone?: Faulty Supranational Architecture

Assaf Razin[1,2] & Steven Rosefielde[3]

ABSTRACT

The global financial crisis which erupted in the United States instantaneously swept across Europe. Like the United States, the European Monetary Union (EMU) was ripe for a crash. It had its own real estate bubble, specifically in Ireland and Spain, indulged in excessive deficit spending, financially deregulated, and rapidly expanded credit. Policy responses and recovery patterns for key EU members like Germany, France (within the Eurozone) and the United Kingdom (outside the Eurozone) were similar. However, after the bubble burst and the crisis began unfolding it became clear that the Eurozone plight differed from America's in one fundamental respect. There was no exact counterpart of Eurozone GIIPS (Greece, Italy, Ireland, Portugal and Spain) in the United States.

The disparity is traced to the EU's and Eurozone's special form of governance called "supranationality" (a partially sovereign transnational organization) that has been largely ignored in economic treatises about the costs and benefits of customs unions, economic communities, and monetary unions. EZ members have put themselves in a monetary cage, akin to the gold standard. Member states have surrendered control over their monetary and foreign exchange rate policies to the German dominated European Central Bank (ECB), without supplementary central fiscal, private banking and political union institutions. This should be enough in general competitive theory, but too often leads to factional and societal gridlock that compounds the misery, and could cause the EU to permanently and gravely underperform relative to community's "un-caged" potential.

KEY WORDS: single currency area, supranationality, EU, EMU

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[1] Tel Aviv University, Israel, [2]Cornell University, USA, [3]University of North Carolina, USA

I. Introduction

It seems almost yesterday that Europhiles confidently declared that the American dream of democratic free enterprise within a unitary nation state was dead; that the European Union's supranational (transnational) vision (Rifkin, 2004) had eclipsed it. Europhiles claimed that Europe was on the fast track to creating a superior postmodern culture and had successfully fashioned a series of novel institutions to realize this dream in the Treaties of Rome (1957-58), Schengen (1985), Maastricht (1992-93), Amsterdam (1997-99), Nice (2001-03) and Lisbon (2007-09), applicable to current members and extendable later to others on its immediate periphery and eventually beyond including Russia and North Africa. Proponents, moreover encouraged other regions including ASEAN to emulate the EU example so that in the not too distant future traditional nation states like America would find themselves on the endangered species list, replaced by supranational clusters of the EU type, culminating logically in an ill-defined progressive transnational world government. For more detailed accounts the reader is referred to

Corespondence concerning this article should be addressed to: Assaf Razin, Cornell University, Department of Economics, Ithaca, New York, 14853, USA, e-mail: razin@post.tau.ac.il

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(Baldwin & Wyplosz, 2009; Bindi, 2010; Bomberg, Peterson & Corbett, 2012; Corbett, Jacobs, & Shackleton, 2011; Craig & De Búrca, 2007; McCormick, 2007; Pinder & Usherwood, 2008; Rifkin, 2004).

The global financial crisis of 2008 and its aftermath have put EU visionaries on the defensive, but have not undermined the faith. It is universally acknowledged that the Eurozone's (EZ) architecture is defective, prompting calls for "more" Europe (Merkel 2012) and in some instance "less".

Should EU and/or EZ supranationality be adjusted? The answer depends on the kind of transnationality members consider best. They can supplement the existing monetary union with a fiscal union like America's to forge a full economic union with superior macroeconomic characteristics. Or they could opt for "less Europe", also constructing a better community-wide macroeconomic system by downsizing the monetary union into a "coalition of the willing", with or without fiscal union. Each approach has pluses and minus that members will have to sort out normatively according to their scale of values. Muddling through by refining the existing supranational fiscal regime is another option, but runs the danger of putting the EU on a dysfunctional "treadmill of reform", suggesting that EU leaders should return to basics. See, for example, (Schroeder, 1979, pp. 312–366).

They should rethink the concept of supranationality to determine the precise form of transnational governance they prefer, and more broadly whether any form of supranationality is superior to creating a unified federal European nation state. An exercise of this sort was implicit in the EMU debates leading up to monetary union, but the results have not lived up to expectations. It now seems clear with the benefit of hindsight that adopting a monetary union was premature; that EU prospects would have been greatly enhanced if monetary union had been preceded by fiscal union. It also seems to be true that monetary union without fiscal union is hazardous so that unless members are prepared to cede greater fiscal sovereignty to Brussels the entire EZ project must be drastically reformed and/or downsized. EU international policy is floundering too.

This essay offers a fresh framework for constructive debate. It investigates the historical roots of EU political culture, the concept of supranationality, reviews Europe's postwar successes and elucidates the intrinsic vulnerabilities of the transnational project.

II. EU Supranationality

Nationalism was and remains a bugaboo for EU architects who see it as the source of various evils, including WWI and WWII. See (Yun Chen and Ken Morita, 2012).

They fear both the chauvinism of individual states and the centralized authority of a construct like the United States of Europe. Postwar leaders accordingly sought to forestall WWIII and reap intra-regional cooperative benefits without relinquishing their own primary authority by hewing a middle path. Helmsmen counseled delegating some state powers to transnational (supranational) entities over intra-regional trade, mobility, standards, justice, culture, international relations and defense, while retaining other fundamental aspects of member autonomy. They forged a succession of treaties eliminating intra-regional tariffs and subsidies that foster capital and travel mobility and reconcile contradictory standards and laws to create a level, pro-competitive, union-wide playing field as a platform for European global power.

EU supranationalism from its leaders' perspective is more than the creation of a strong central authority without a formal national sovereign federation. It is an institutional pathway to a superior system where the conflicting governance claims of members and central authorities are democratically and socially harmonized. It is supposed to generate communitarian benefits that go far beyond gains from customs unions and multinational coordination in a transnational federal setting without entailing significant efficiency and welfare costs. EU Supranationalists claim to vouchsafe the priorities of mature, culturally diverse members over the counterclaims of Brussels, not just through constitutional safeguards as in America, but via key reserved executive, judicial and legislative powers, including taxation. Transnationality privileges members' economic, cultural, security and political independence over central national rule. Members are willing to talk about anything and cooperate to the extent that they have, but are unwilling to create a full union political or economic union (monetary plus fiscal union) that allows Brussels to disregard member autonomy. EU architects believe that the welfare costs of delegating member authority to Brussels outweigh the micro and macroeconomic efficiency gains. Supranationality from this perspective is best because it prevents central authorities from suppressing member autonomy in the name of the community. EU leaders are free to build consensus, but coercion is off the table. In short Europeans are ambivalent about being homogenized EU-ropeans. They are happy to doff an EU-ropean identify when this suits them, but don't want individuals, communities, or nations to be dominated by central political authorities. Supranational advocates appreciate that this precludes solving the EU's woes by forming a United States of Europe, but believe that there is a satisfactory middle ground. This mostly means "more Europe", but if need be "less Europe" as well. See (Eichengreen, 2012, pp. 117-134; Feldstein, 2012, pp. 105-116; Mallaby and Wethington, 2012, pp.135-146; Moravcsik, 2012, pp. 54-68; Rajan, 2012, pp. 69-79; Razin & Rosefielde, 2012a; Razin & Rosefielde, 2012b; Rosefielde & Mills, 2012; Rosefielde & Zhou, 2012).

III. EU Successes

The EU in many ways is an enormous success story. Postwar leaders cajoled their nations into putting aside deep-seated enmities in favor of building a progressive social democratic community nurturing common political, social, cultural and economic needs. Much of this agenda has been beneficially achieved. The vast majority concur that today's Europe is better than its predecessors. On the economic front, cooperation has allowed EU members to create an efficiency enhancing customs union that reduced the costs of the region's production, trade, finance, and monetary exchange. It also abolished cross-national barriers to non-labor mobility. Partly as a result, the EU rapidly recovered from the devastation of World War II, grew at a respectable rate until 1975 and broadly provided its people with a superior way of life. The magnitude of the accomplishment can be easily gauged in comparison with Asia which has made significantly less progress in crafting an integrated, egalitarian postwar regional economic community. Nonetheless, there are clear signs of EU degeneration.

IV. Eurosclerosis

The European Union appears to be susceptible to two serious economic maladies: Eurosclerosis and supranational macroeconomic dysfunction. Eurosclerosis is a devitalizing disease caused by union-wide microeconomic over-regulation and over-taxation. Brussels has sought to obviate the effects of big social democratic government with pro-competitive market initiatives, but the EU's anemic economic growth since the mid-1970s testifies to the fact that stepping on the gas doesn't eliminate the adverse effects of simultaneously slamming on the brakes. This ill-advised policy however has nothing to do with supranationality, except to the extent that the pro-competitive aspect of transnationality ameliorates the deadening effect of government overregulation. The intrusive visible hand is merely a contemporary manifestation of the age old struggle between free enterprise and state management that doesn't warrant further elaboration because it applies equally to national and supranational regimes.

V. Supranational Macroeconomic Dysfunction

The EU's macroeconomic plight is different because it is attributable in significant part to supranational rigidities that come into play when aspects of EU architecture impede macroeconomic equilibration; that is, when member full employment, price stability and growth require cooperation other members are reluctant to provide. Intra-union labor immobility offers an illuminating example. EU members resolutely protect their citizens' domestic jobs, despite professions of community solidarity. As a consequence the vast army of unemployed in the GIIPS (Greece, Ireland, Italy, Portugal and Spain) [Europe's preferred acronym for the more familiar PIIGS (Portugal, Ireland, Italy, Greece and Spain)] cannot be alleviated by temporary or permanent labor migration to Germany. The Schengen agreement permits businessmen to flow across national borders without government-imposed restrictions, but this doesn't extend to work rights, embedding micro and macroeconomic disequilibria. Likewise, there are no institutional requirements for financially strong community members to fiscally support chronically weak regimes or rich members to share the wealth as is the norm in unitary nations such as America. European leaders speak as if they have these obligations, and act accordingly when burdens are easily managed, but balk at accepting onerous dependencies. The same principle holds for cooperative management of monetary, interest rate and foreign exchange rate policy. When skies are blue EU supranational institutional weaknesses are invisible, but they surface in stormy weather.

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VI. Maastricht

These generic EU vulnerabilities have been exacerbated for members who joined the common currency Eurozone created by the Maastricht treaty 1992-93. Countries that agreed to scrap their national currencies for the Euro in the mistaken belief that the EZ was an optimum currency area belatedly came to appreciate the full tri-lemma cost of surrendering control over two fundamental macroeconomic instruments. When it seemed desirable to devalue their own national currency, and/or increase their money supplies in the aftermath of the 2008 global financial crisis these remedies were unavailable and could not be realized derivatively under the new collective regime. Members whose domestic price levels became uncompetitive found that they could not independently devalue the Euro, or inflate their way out of excessive indebtedness and slack aggregate effective demand. Instead they had to depend on internal devaluations (wage and price reductions), the solicitude of creditors at home and abroad, and fiscal assistance from strong EU members.

The financial crisis of 2008 brought all these issues to the fore. However, it is worth noting that the GIIPS over indebtedness would have posed a serious problem for the EU, even if the Maastricht treaty had been rejected because members could not turn a blind eye to sharp devaluations and rampant inflation on Europe's southern periphery. The merit of the EU's brand of supranationality was going to be tested at some point. The global financial crisis and Maastricht merely accelerated the process.

VII. Political Failure

The EZ was hoisted on the tri-lemma retard because EU leaders failed to dispassionately consider the evidence in the preparatory phase prior to the Euro's launching Werner Report (1969), the Single European Act (1986), the Delores report (1989), the Maastricht treaty (1991) and the Stability and Growth Pact (1997).

Fleming (1962) and Mundell (1963) succinctly formulated the problem bedeviling the EZ in the form of a two-not-three tri-lemma more than a quarter century before the Euro was launched. See: (De Grauwe, 2000; Kenen, 1967; McKinnon, 1963; Mundell, 1961). They showed that countries seeking to form a monetary union can enjoy two, but only two desirable policy goals: 1) free international capital flows (connected with optimal fiscal policy), 2) potent monetary policy to stabilize output, employment, inflation and financial markets, and 3) exchange rate stability. The United States picked free capital mobility and monetary independence, letting their foreign exchange rate float. China decided to retain its monetary independence and control its exchange rate, abandoning free capital flows, while the EZ selected a third way without adopting essential supranational fiscal institutions required to make any tri-lemma choice efficient. It mimicked the United States at the transnational level, accepting floating exchange rates for the euro, but at the national level failed to complement the selection with supportive fiscal and labor mobility regimes, leaving vulnerable nations like the GIIPS in a lurch. When times were good this didn't seem to matter, but when they turned bad, the euro became overvalued from the GIIPS perspective as investors fled to the German safe haven, and GIIPS export competitiveness plummeted.

The single currency choice which works for America didn't for the EZ because of supranationality, the omitted variable in the tri-lemma discourse. The trilemma solution for the PIIGS saddled them with three bads: no independent monetary policy, no independent exchange rate policy, and fiscal paralysis(due to excessive debt), while Germany and other current account surplus members retain free capital flows, a supranational monetary policy tailored to their needs, and an appreciating currency that they desire. See (Razin and Rosefielde, 2012 c).

VIII. Road to Crisis

The macroeconomic perils of Eurozone supranationality were evident long before the Euro was launched in 1999. The EZ wasn't forged overnight. An experiment was conducted under the auspices of the European Monetary System 1996-98 testing aspirants' ability to contain deficit spending, inflation, and foreign exchange rate volatility. It was an unmitigated failure, but EZ advocates resolved to press forward anyway with surprisingly positive results, not because Southern Europe had an epiphany, but because the German dominated European Central Bank (ECB) fostered the illusion in investors' eyes that GIIPS were creditworthy. Interest rates promptly plummeted and profit expectations soared leading in turn to vast inflows of capital and a hard asset bubble. Exportable, importable and non-tradable GIIPS prices skyrocketed without commensurate gains in factor productivity, sharply diminishing competiveness in high budget deficit member states while productivity and competitiveness advanced reciprocally in Germany and its Northern neighbors . See (Rosefielde & Razin, 2012c).

It should have been obvious 1999-2007 that this was a recipe for disaster because without vibrant productivity growth GIIPS' debts for diverse reasons (public sector debt in Greece, a real estate bubble in Spain, etc.) couldn't be repaid, but as is always the case during bubbles naysayers were easily brushed aside. Indeed, as expectations soured, aggravated by the American generated global financial crisis of 2008, investor sentiment swiftly shifted from euphoria to despair. During the Euro honeymoon borrowing costs were artificially low, but became onerous for the GIIPS thereafter. Foreign investors, who threw money at the GIIPS during the first seven years of the new millennium, abruptly fled causing acute credit contraction, default and bankruptcy. The contagion then gradually crept from the vulnerable EZ periphery (the "south") towards its "northern" trade surplus core, including France.

The situation was dire, compounded by the Euro straitjacket. Nonetheless, the initial response of strong EZ members was to treat the disorder as a liquidity problem occasioned by the shock of the American financial crisis. EU leaders after meeting in 15-20 summit conferences and crafting 3-5 rescue plans with scant positive effect still repeatedly assert that a series of emergency loans, and adjustment of ECB lending requirements will do the trick, but the claim is becoming increasingly suspect. The GIIPS crisis seems to be intensifying and metastasizing.

IX. Macro Economic Framework

This isn't surprising because the EU and the EZ have been in a state of fundamental disequilibrium for a decade that either required frictionless competitive adjustment or deft trans-union macroeconomic coordination. Given sticky wages and other impediments that cause inadequate aggregate effective demand and involuntary unemployment, member states and supranational authorities are obligated to devise potent counter-depression monetary, fiscal, financial and regulatory policies to promote recovery, low inflation, full employment, robust economic growth and even social justice. Supranationality from this perspective is supposed to be innocuous, but it isn't because the institutional framework has fostered a stealthy political economic culture where members struggle for national advantage behind the rhetoric of transnational duty, frustrating efficient macro policymaking, while encouraging speculative assaults. The market understands that it can force monetary union countries' sovereigns into default because the ECB is reluctant to serve as lender of last recourse. Non-EZ members like the UK are in a stronger position because they have independent monetary policies.

This is why Angela Merkel presses the "more" Europe theme. She believes (wishes) that members will accept enough increased centralized authority to create a macroeconomically efficient EU. There is no reason to doubt that centralization might have macroeconomic benefits. However, this carrot may not be enough to carry the day, and of course as America's financial crisis experience demonstrates, cannot be considered a panacea.

X. The Case for More Europe

"More Europe" means different things to different people. For many it merely entails more emergency financial assistance in exchange for a moratorium on fresh deficit spending. Others urge fiscal union and some may secretly view it as a pathway to national federation. The case for more Europe on all these scores is the same. The PIIGS (a.k.a. GIIPS) and other members with similar proclivities don't seem willing to restrain themselves and require a stronger central hand to impose the requisite fiscal discipline. The issue in contention among more Europe advocates is how this should be accomplished. For the moment, the only option officially on the table is reforming existing financial policies and institutions. Sovereign and national bank indebtedness can be capped. Limits can be set on new deficit spending, the composition of national budgets can be mandated, assistance quotas fixed, and the enforcement powers of central authorities strengthened. See (Peel, 2012). None of the initiatives vetted to date however seems promising. For example, EZ leaders agreed in October 2011 that banks should increase their capital ratios. This plan won't work because the banks don't want to dilute current shareholders' equity by seeking either private or public capital. Instead they are reducing their lending, particularly to borrowers in other countries, causing a further slowdown in European economic activity. Likewise, although the new European financial stability facility is 1 trillion Euros, the amount remains small relative to needs and activation is contingent on adopting austerity policies that are unlikely to be implemented.

Ultimately, of course, if supranational policy reforms prove insufficient sentiment for fiscal union requiring explicit delegation of financial authority from members to Brussels is likely to increase, but such an initiative still is unlikely to carry the day because antinational unionist continue to believe that the gain isn't worth the pain.

The outcome thus is hardly a foregone conclusion. PIIGS and other members while grudgingly accepting some conditionality as a temporary palliative in times of crisis, adamantly oppose any permanent ceding of their fiscal sovereignty to Brussels beyond those powers granted in the Lisbon Treaty amending the Maastricht Treaty and the Treaty of Rome. Consequently, while nothing precludes "more Europe," any advance in this direction will be an arduous and protracted undertaking.

XI. Monetary Cage

The EU's implicit rejection of substantially "more Europe" properly understood means that EZ members have put themselves in a supranational cage, not unlike the gold standard. Member states have surrendered control over their monetary and foreign exchange rate policies to the German dominated European Central Bank (ECB), without supplementary central fiscal, private banking and political union institutions. They can neither devalue nor inflate national currencies that they no longer possess, and they cannot count on timely supranational crisis assistance from strong brethren. Adjustments to shocks therefore come down to painful internal price and wage deflation haphazardly ameliorated by the kindness of strangers and bottom-fishing speculators. This should be enough in general competitive theory, but too often leads to factional and societal gridlock that compound the misery, and could cause the EU to permanently and gravely underperform relative to community's "un-caged" potential.

The GIIPS plight is instructive. Politicians in these countries cannot bring themselves to cease deficit spending and reduce national debt. Their desires have been partly accommodated by loans from strong members, but the assistance is incommensurate with the PIIGS' appetite to overspend, compelling their leaders to take various ill-advised measures. They issue sovereign debt until interest rates rise to ruinous levels, or buyers flee the market. They borrow from private domestic banks until they succeed in bankrupting this segment of the financial sector. And when all else fails, they resort to "haircuts," refusing to repay their obligations and sticking "some other guy" with the debt baby.

The GIIPS predictably deny that their excess deficit spending is premeditated; that they prefer to live permanently beyond their means at others' expense, depicting themselves instead as victims of circumstance. They contend that if investments hadn't soured, debt service costs hadn't risen, or creditors had been more compassionate they could have weathered the storm by repaying debts from anticipated growth dividends. They assert that if they hadn't been placed in a monetary cage, and strong members provided them with the wherewithal needed the crisis would have been averted.

Consequently, the GIIPS and other union members do not feel obliged to surrender their reserved economic freedoms for what they perceive to be the procrustean bed of stronger political, fiscal and financial union. Their brethren failed them after the 2008 crisis. Why should they anticipate more compassionate treatment in a German dominated political, fiscal and financial union? Supranationality from their perspective isn't faulty; the problem is that some EU members are stingy and hard hearted.

XII. Macroeconomic Indeterminism

Fiscally conservative EU members reject these excuses, but there is little that can be done. They cannot deny that further deficit spending might spur employment and growth because the strategy has become an article of faith for many macro-theorists and political leaders across the globe. They cannot gainsay the claim that flexible exchange rates and independent monetary policies would have offered GIIPS more opportunities for stimulating positive Keynesian multiplier effects at home and abroad. All they can do is chastise, exhort, plead and assert their version of macroeconomic orthodoxy against the GIIPS' variant. There undoubtedly is some truth to worst case scenarios of financial collapse, hyper-depression and perpetual stagnation, but no one is listening.

XIII. Economic Union

This partly reflects a failure to recognize that a stable and sustainable supranational economic regime requires an economic union combining both a monetary and fiscal union. Monetary union allows members to reap the benefits of a common currency, interest and exchange rate. Fiscal union permits central authorities to optimally coordinate deficit spending and finance across the community. There is no need to choose between them. They are mutually compatible, but as a practical matter it is best to proceed by introducing fiscal union first and monetary union latter in accordance with the American example (fiscal union 1790; monetary union 1913) because although an effective fiscal regime shouldn't cause macroeconomic disorder, a well-functioning monetary union may unintentionally trigger severe macroeconomic disequilibrium by abetting GIIPS-like speculative investment and over-consumption. Had a political consensus for fiscal union existed within Europe in the 1990s, the EU project might well have proceeded in reverse order starting with fiscal and ending with monetary union. See (Sargent, 2012). The result in all likelihood would have been better. But there was no mandate, and EU leaders decided to push forward with monetary union despite the American precedent.

It is too late to alter the EU project's development path, but the second best option remains. Leaders can start the process of fiscal union building whenever they choose. However, there has been little discussion of the matter yet because many members remain wedded to EU supranationalism in its present form and are reluctant to surrender more sovereignty to Brussels.

XIV. Political Expediency

The course of least resistance under these circumstances is expediency. Anti-full economic unionist sentiment remains too strong to easily achieve fiscal union and macroeconomic theory is too malleable to hold politicians' feet to the fire. The French under socialist President Francois Hollande have decided that the best way to spur growth and cut the fiscal deficit is ending exemptions and raising taxes on the rich. Others are cutting social spending, but hardly enough because national debt continues increasing across the EU. The Germans tirelessly preach monetary discipline and all express confidence in the future as if temporizing is a shrewd solution. Euroslerosis is ignored on the premise that chanting the mantra of competitiveness will suffice without drastically deregulating or reducing tax burdens. See "Lower house votes to end exemption, raise taxes on the wealthy," (July 19,2012).

XV. New Normal

The cunning of the invisible hand could make this hodgepodge of contradictions work in a crude sense. Aggregate effective demand could improve and unemployment could be pared. The danger of an adverse new normal however is also real. A long series of false recoveries, combined with negative returns to saving could depress economic activity for decades. The EU is displaying signs of disorientation which may be heralding a dyspeptic age.

XVI. Shadow Boxing

The EU's performance potential is severely constrained by political and ideological obfuscation. Leaders have embraced supranationalism as a device for branding their pan-European social democratic vision without thinking through the practical ramifications. It makes little difference whether they have done so out of conviction, or convenience. They have hamstrung their institutional and policy choices either way and are suffering for it. Moreover, EU helmsmen have shown little willingness to rethink their supranational faith. Some eclectically counsel more Europe, others less including expelling Greece from the EZ without a comprehensive assessment of opportunity costs.

This is a trap. EU statesmen should take stock of community as it is, and is likely to be, not as they hope. Greece isn't the fundamental problem. It is the EU's prevailing form of supranationality. If fiscal policy reform doesn't suffice, leaders should quickly grasp the nettle by revising EU supranationality with either more or less Europe as community politics dictate.

XVII. A Look Towards the Future

The substantive issue moving forward therefore is whether members are sufficiently dissatisfied with muddling through that they are willing to reform or ditch supranationality. Inertia favors doing nothing fundamental. Resistance to replacing member governance with unified federal rule is likely to be insurmountable now that the bloom is off the rose, while German and French authorities will be charier than ever of ceding ultimate control over the purse to supranational bodies. The EMU's inflexible supranational architecture is the patchwork result of contradictory goals and political interests, and pure institutional design. Any changes made therefore only are apt to improve flexibility at the margin rather than functioning as a viable surrogate for a unified state. As such reform may deter or mitigate crises in some instances, but shouldn't prevent them. Politics has been in command from the beginning, and continues to take precedence over economic potential and performance.

Still, improvements are possible. In the redesigning of the EMU, a European-wide bank deposit insurance and single bank-regulation authority should be considered as a means to prevent Europe financial contagion which is spreading across the Southern European countries. A banking union would be desirable, even though it requires greater political integration, and may be achievable if the generosity of social benefits across Europe is leveled as the Dutch and Germans prefer.

The EU has wrought substantial political benefits including the democratization of new members and intra-European major war avoidance, but EMU architecture is comparatively inefficient, bubble prone and inordinately subject to systemic risk. This package may be good enough for supporters of the welfare state, but emulators should weigh the evidence more judiciously. A greater political union is critical for the preservation of the European monetary union. But, a greater political union is hard to structure between sovereign nations with vastly conflicting interests.

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