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The Euro at Twenty: Reflections

Introduction

When the euro turned 20 years old on January 1, 2019, the anniversary of the EU's single currency was met with sober reflection rather than euphoric celebration. Some lessons had clearly been learned since Jean-Claude Trichet, president of the European Central Bank (ECB), made his unfortunate comparison of the euro with a "large, solid, and steady ship" ten years earlier, which was less than a year before the euro area's sovereign debt crisis pushed the single currency to the brink of disintegration.[1] While real progress has been made in putting the euro on a more sustainable institutional footing, EU leaders have not fully rectified its design flaws and continue to be obsessed with national fiscal profligacy and lagging member state competitiveness as the roots of all evil. At the same time, the founders of the euro – former Commission president Jacques Delors; former French president François Mitterrand; and especially, former German chancellor Helmut Kohl – continue on the whole to be revered as visionaries of European integration, though a more critical look at their legacies would result in a decidedly less glossy account.

Werner Becker's contribution to this volume was originally written in the spring of 2011,[2] in the midst of the eurozone debt crisis. He tries to give a balanced assessment of the first twelve years of the single currency, discussing its many strengths without being blind to some of its weaknesses. Becker sees a positive performance of the euro during its first twelve years, especially when it comes to maintaining price stability, keeping interest rates relatively low, stimulating trade and financial market integration, reducing economic risks, and increasingly acting as an international reserve currency. However, he is quick to point out that the eurozone's pace of economic growth was rather mediocre in its first twelve years (a trend that has continued since 2011), and that the euro has not fulfilled its promise to become the currency of all EU member states, with only very small new member states joining since 2002. For Becker, there is no doubt that the euro

1 Jean-Claude Trichet, The Euro@10 – Achievements and Responsibilities. Speech during Ceremony at the European Parliament to Mark the 10th Anniversary of the Euro, Strasbourg, January 13, 2009: www.bis.org/review/r090119a.pdf [accessed February 25, 2019].

2 See Werner Becker, Twelve Years of the Euro. From Calm Waters to Turbulent Seas, in this Yearbook, pp. 133–56.

crisis that started in the spring of 2010 was caused by a lack of fiscal discipline, and that it was made worse by the reduced competitiveness of several peripheral eurozone countries. He puts the blame squarely on a lack of national political will to abide by, and enforce, the rules of the Stability and Growth Pact (SGP). He includes Germany and France in this stricture. Becker also believes that economic policy in the future should focus on competitiveness and growth through structural reform. Monetary policy, he thinks, will need to go back to its roots and focus on keeping inflation under control, after years of easy money combined with high government debt. He concludes that "Monetary Union has proven to be a catalyst for integration and a platform for cohesion in Europe."[3]

Wilfried Loth, in his contribution, reassesses the role played by the German chancellor, Helmut Kohl, in bringing about monetary union.[4] Unlike many of his fellow German policy-makers, who, Loth points out, were euro-skeptics and were unwilling to give up the stability so long guaranteed by their cherished *Deutsche Mark*, Kohl was a principled proponent of monetary union, which was "a self-evident part of his vision for a united Europe."[5] He outfoxed the stalling maneuvers made, along with other critics, by his Central Bank governor, the Bundesbank's Karl Otto Pöhl, and his finance minister, Theo Waigel, to push through the bold vision of European integration he shared with Mitterand. Loth is correct to discard the popular myth that the euro was the price Kohl had to pay France for Germany's reunification. The Delors Committee on the single currency had started its work in the summer of 1988, and put forward a blueprint for European Economic and Monetary Union (EMU) in the summer of 1989, well before the fall of the Berlin Wall in November 1989. Also, after the US president, George H. W. Bush, had strongly endorsed Kohl's 10-point plan for German unity, the political momentum towards reunification was to prove unstoppable. Loth concludes that the historic reunification of Germany merely provided the occasion for the single currency's introduction. While the German chancellor did indeed seize that opportunity, it was not without hubris. For Kohl, the significance of the signing of the Maastricht Treaty of 1992 was that it set Europe on a path towards political unification. At the time, Kohl stated that the euro would unleash a "dynamic process" that would sweep away the forces of nationalism and that the European Union would grow into "a political form not seen before."[6]

3 Ibid., p. 156.
4 See Wilfried Loth, Helmut Kohl and the Monetary Union, in this Yearbook, pp. 157–85.
5 Ibid., p. 159.
6 Quotation from Ashoka Mody, Euro Tragedy. A Drama in Nine Acts, New York 2018, p. 95.

There is much to admire in both contributions, but probably even more to argue, disagree, and take issue with. Let me focus on two major points of disagreement. The first is with Becker's analysis of the causes of the crisis, and the yardstick we should use in judging whether the euro is now a more sustainable currency after the myriad post-crisis reforms. The second is with Loth over whether a stubborn Helmut Kohl was right to go *against* the explicit wishes of his government and his national electorate, who wanted to wait with monetary integration until more substantial economic convergence had been established. Should Kohl really have agreed on Economic and Monetary Union without simultaneously pursuing political union (however vaguely defined at the time)? While his pro-European visions were good-natured and mostly laudable, the unintended consequences of his brash political decision may have done more harm than good for the long-term health of the European Union and Germany's role therein.

To address these points: first of all, in the introduction to our co-edited volume "The Future of the Euro," Mark Blyth and I identified the root cause of the sovereign debt crisis as the single currency's fundamental "lack of embeddedness" in truly supranational European financial, fiscal and governance institutions.[7] Our argument was that the deeper causes of the crisis went well beyond a problem of fiscal profligacy or lack of competitiveness. In our view these did nothing to trigger the actual crisis. The problems of Greek budgetary laxity, sluggish Italian and Portuguese productivity and economic growth, as well as the Irish and Spanish financial and real estate bonanzas, were well known before the crisis hit. The financial markets did not seem to care all that much either. By early February 2009, it was widely reported that there was a serious problem with Greek public finances. But after Peer Steinbrück, the social democrat German finance minister at the time, gave a press conference reassuring everyone that the other member states in the eurozone would "have to rescue those running into difficulty," the crisis simply went away. It was only in the spring of 2010, following a change of government in both Greece and Germany, that the Greek fiscal problem turned into a full-blown crisis of sovereign debt. This was after EU and German officials, including Chancellor Merkel, had started to dither on how to deal with the fiscal problems Greece was experiencing.[8] Furthermore, painting the crisis as mostly fiscal ignores the fact that both Spain and Ireland had been

7 Matthias Matthijs/Mark Blyth, Introduction. The Future of the Euro and the Politics of Embedded Currency Areas, in: idem. (eds.), The Future of the Euro, Oxford 2015, pp. 1–20, here p. 1.
8 Cited by Matthias Matthijs, Powerful Rules Governing the Euro. The Perverse Logic of German Ideas, in: Journal of European Public Policy 23 (2016), pp. 375–91, here p. 386.

exemplary students in the eurozone's budgetary class. A crisis of private debt in those two countries turned into a sovereign debt crisis after governments had to bail out their banks. Italy and Portugal were mostly hit by the financial contagion effect in the Mediterranean. It would therefore be wrong to put the blame for the crisis mainly on a lack of political will in enforcing the SGP.

On the second point: while, in its first decade, the euro seemed to deliver the goods in terms of catch-up and convergence between Northern core and Southern periphery, the unequal adjustment that came after the eurozone crisis has, in many ways, reversed this process, and brought back a gap in economic prosperity between North and South. Once the narrative of the sovereign debt crisis had been framed in Brussels and (especially) Berlin as one of "Northern Saints" and "Southern Sinners" – emphasizing national causes of the crisis rather than systemic ones due to the euro's flawed institutional design – serious damage was done to the project of European integration.[9] The medicine prescribed to deal with the crisis – fiscal austerity and structural reform – subsequently implemented in Greece, Ireland, and Portugal by the "troika" (of European Central Bank, European Commission, and International Monetary Fund) – was bound to result in deep recessions, followed by steep cuts in pensions and public services, as well as much higher levels of unemployment. These measures necessarily brought lower standards of living, and a brain drain of many educated young people to the Northern core of the eurozone and the United Kingdom in search of better opportunities. People's trust in both their national governments and the EU's institutions decreased substantially during the crisis years in the Southern periphery countries, and has not recovered to pre-crisis levels. Maybe it never will. The crisis also triggered a nationalist backlash in both North and South, with new or existing extreme-right and extreme-left parties gaining popular traction by calling the project of European integration into question altogether. It also brought back the ghost of the "German problem" – the idea of Germany as too big, too dynamic and too powerful for the rest of Europe to accommodate in a peaceful way. This outcome is surely not what Kohl had in mind at Maastricht in the early 1990s.

9 See Matthias Matthijs/Kathleen R. McNamara, The Euro Crisis' Theory Effect. Northern Saints, Southern Sinners, and the Demise of the Eurobond, in: Journal of European Integration 37 (2015), pp. 229–45.

Has Progress Been Made Towards a Genuine Economic and Monetary Union?

If we choose to analyze the potential success of a currency union between sovereign states not from the point of view of an "optimal" currency area – the way economists tend to do – but rather from the perspective of what the minimal political and institutional conditions are to make it work, we have to ask ourselves two questions. First, what are those minimum conditions? And second, does the eurozone meet these conditions, or has it been moving in the right direction since the crisis? In 2015, Blyth and I identified three "forgotten unions" at the heart of the EMU that would have made it a truly "embedded" currency area. These are: a missing financial (not just banking) union; a missing fiscal and economic governance union; and missing institutions of democratic legitimacy and solidarity.[10] We concluded that, in the EU leaders' rush to monetary integration in the early 1990s, the eurozone had forgotten to build those unions, or even to lay the groundwork for them. We also noted, in 2015, that the EU had made real progress towards building the financial union, with a functioning banking union that had a single supervisory mechanism and a single resolution mechanism in place by 2014. But there had been very little progress in building a fiscal union or economic government, let alone in strengthening the euro's democratic input and throughput processes, with mediocre output results as an ongoing consequence. Four years after the publication of our book, I remain skeptical whether any real progress will be made with the latter two unions, even though there are reasons to be cautiously optimistic about the completion of the financial union in the medium term.

The idea that the "euro problem" is ultimately one of the EMU not being a truly embedded currency area was elaborated upon in "The Future of the Euro" by Kathleen McNamara. To make her case, she channeled the historical sociology and communitarian insights of Karl Polanyi rather than the free market ideas of Friedrich Hayek.[11] McNamara suggested that the lesson to be learned from previous experiments of monetary union was that successful currency areas had to be fully embedded in broader social and political institutions. Those institutions are needed to provide a durable, long-term foundation for any monetary union to sustain itself. In a successful monetary union like the United States, for

10 Matthijs/Blyth, Introduction, in: idem (eds.), Future of the Euro, p. 1.

11 Kathleen R. McNamara, The Forgotten Problem of Embeddedness. History Lessons for the Euro, in: ibid., pp. 21–43.

example, a common currency, the dollar, was an integral part of a larger project of state building. To paraphrase Charles Tilly's famous line about war-making and state-building, "the state made money, and money made the state."[12] In fact, both political and fiscal union came well before a common currency in the case of the United States, which only enjoyed a single currency after the Civil War ended in 1865. While the European Union has grown well beyond being a mere international organization, it is still far from being a federal state, and most EU citizens do not consider it desirable to move in that direction. Nevertheless, having a common currency is not a merely technocratic matter; rather, it is a political endeavor. It needs financial, fiscal, and political institutions to make it work, especially in times of stress. Those three "missing unions"[13] were elaborated upon in the same book by Erik Jones, Nicolas Jabko, and Vivien Schmidt.

The missing financial union – and not the currency per se – was, for Erik Jones, the main problem with the euro crisis. The Europeans had built a single market with free capital flows and had liberalized cross-border banking prior to the introduction of the euro, but never thought about building common institutions to ensure financial stability.[14] Lack of a supra-national banking union – with a common financial supervisory and resolution mechanism – and lack of common deposit insurance, was always going to lead to some sort of crisis, as long as regulators continued to function solely in their national contexts. Furthermore, as long as the eurozone did not have a common debt instrument – in the form of some sort of eurobond – there was always the risk that capital would flee to safety from periphery to core, especially when the European Central Bank's mandate was exclusively focused on price stability and not on financial stability as well. In this area, we have seen real progress. EU leaders agreed to a single supervisory mechanism to be housed in the European Central Bank in Frankfurt, combined with a single resolution mechanism for failing banks (even though a common fiscal backstop is not quite operational yet). Also, the ECB, under Mario Draghi, has interpreted its mandate in much more expansive ways, and this has spurred the Central Bank to act much more effectively as a lender of last resort, thereby stemming market panic, especially during the summer of 2012. But as long as there is no common deposit insurance at the European level, in which savings are jointly guaranteed by EU taxpayers' money, and there is no

12 Tilly's original phrase was "war made the state and the state made war." See Charles Tilly, The Formation of National States in Western Europe, Princeton/NJ 1975, p. 42.

13 Matthijs/Blyth, Introduction, in: idem (eds.), Future of the Euro, p. 14.

14 See Erik Jones, The Forgotten Financial Union. How You Can Have a Euro Crisis without a Euro, in: ibid., pp. 44–69.

common safety asset or eurobond, the financial union, though much strengthened, remains fragile and incomplete.

The lack of a fiscal and economic governance union, according to Nicolas Jabko, resulted in monetary policy being conducted at the eurozone level in a one-size-fits-all manner, while fiscal and other macroeconomic policy powers remained squarely in the hands of the national authorities.[15] The euro problem at heart was thus one of divided sovereignty. This tension is well known, and it has been there from the start. Since the beginning of the 1990s, the broad consensus within the economics profession has always been that some sort of joint fiscal policy was necessary to offset asymmetric shocks, and was needed to make up for the fact that labor mobility was not going to solve regional unemployment imbalances within Europe, given the cultural and language barriers that existed. Jabko noted that, after intense market pressure in 2011, the eurozone member states moved towards surrendering more fiscal powers to the EU level. This included a flurry of new powers for the European Commission, including the Six-Pack, the Two-Pack and the Treaty on Stability, Coordination and Governance (often referred to as the Fiscal Compact). The eurozone also put a permanent sovereign rescue fund in place with the European Stability Mechanism (ESM), based in Luxembourg. Nonetheless, all these policy initiatives stopped well short of a fiscal union or eurozone economic government that could "spend against the wind" and iron out the vicissitudes of the economic business cycle. Most recently, in December 2018, EU leaders formally endorsed the idea of a eurozone budget. This was part of the central reform platform the French president, Emmanuel Macron, ran on, to mold the EMU into a genuine economic and monetary union. However, as things stand, it will not be much more than a line item in the European Commission's budget and will be too small in size to have any real macroeconomic impact. Although it is a big change in principle, it is not a game-changer for the euro.

Finally, the euro problem can be seen as mainly a political problem of missing institutions of democratic legitimacy and solidarity. In this regard, Vivien Schmidt feared that a common currency governed by technocrats interpreting a strict set of rules would quickly lose much of its democratic legitimacy once a deep crisis called into question the effectiveness of those rules.[16] This aspect of the eurozone goes back to the fact that a political union, as Kohl had originally envisaged, was

15 See Nicolas Jabko, The Elusive Economic Government and the Forgotten Fiscal Union, in: ibid., pp. 70–89.

16 See Vivien A. Schmidt, The Forgotten Problem of Democratic Legitimacy. "Governing by the Rules" and "Ruling by the Numbers," in: ibid., pp. 90–114.

never put in place. Many EU federalists in the 1990s believed that it would gradually come about through a series of future crises. As Schmidt saw it, the political fallout of the eurozone crisis made a big dent in three levels of legitimacy: output, throughput, and input. From an output point of view, the crisis proved disastrous for standards of living in the euro periphery. Though the euro seemed to deliver broad North-South convergence during the boom period that preceded the crisis, the EU-imposed austerity cuts and structural reform measures made peripheral economies nosedive – all in the uncertain hope that things would get better in the longer term. The gap between Italian and German standards of living, for example, is much larger today than it was during the mid-1990s. From a throughput point of view, the decision-making process at the EU level seemed opaque and overly technocratic, with one-size-fits-all rules that were unilaterally imposed by Northern creditors on Southern debtors. From an input point of view, the countries under stress had very little say, and when their electorates rebelled and voted out incumbent governments in favor of anti-austerity populists, all the EU did was assert that there was no alternative to the agreed "memorandum of understanding" these countries had with the troika. As of early 2019, the least progress in any field has been made in this realm of "political" legitimacy. The eurozone, though it has recovered economically on the output side, continues to suffer from a deep democratic deficit on the input and throughput sides. Given the strong differences between North and South in both their interests and their ideas of political union and the ideal form it should take, we remain far from achieving the basic level of democratic legitimacy.

In sum, some progress has been made in moving the eurozone towards a more complete and more genuine "economic and monetary union." However, as yet, it remains a long way off from meeting the minimum conditions of being an "embedded currency area," let alone an "optimum currency area."[17] We remain stuck in a fragile equilibrium, in which many analysts worry whether the eurozone is fully equipped to deal with the next big economic or financial shock. At the heart of this stasis is the difference of opinion between Northern creditor states, who emphasize the need for risk reduction and national responsibility in the periphery, and the Southern debtor states, who emphasize the need for more risk-sharing and European solidarity. The hope in 2017 was that President Emmanuel Macron would be able to bridge this gap between North and South, and that a grand bargain could be made pushing the EMU towards becoming a much more socially and politically embedded institution. Now, in early 2019, one can only conclude that the eurozone still has a long way to go.

17 Matthijs/Blyth, Introduction, in: ibid., pp. 8, 22–23.

Germany, the Euro Crisis, and the Future of European Integration

In many ways the euro crisis was the first serious crisis of European integration, in that the process could have collapsed or gone into reverse if nothing had been done.[18] The crisis also struck at the heart of national politics, in that it affected some of the "core state powers" of many eurozone member states. These powers include taxation and public spending, as well as banking supervision and resolution policies.[19] The crisis also called into question whether European monetary integration was compatible with the eurozone's different "varieties of capitalism" or traditional "growth models."[20] On the one hand, Northern coordinated market economies or export-led growth models, like Germany and the Netherlands, seemed to be doing well during the crisis years. Balanced budgets and higher domestic savings led to further capital outflows that could offset their large current account surpluses. On the other hand, Southern mixed-market economies or domestic demand-led growth models, like Greece and Spain, suffered the most during the crisis years. Policies of fiscal austerity and structural reform, which aimed to fundamentally alter their growth models and make them more like the North, led to mixed successes – to put it mildly.[21] At the same time, the monetary policies of the European Central Bank were now arguably too tight on the periphery and too loose on the core countries – the opposite situation to what had prevailed in the pre-2008 boom years.

At the same time, the crisis thrust Germany into a much more overt hegemonic leadership role in the eurozone, one that Berlin has been reluctant to take on. Given chronic French economic weakness, this has been more *faute de mieux* rather than anything else. Ironically, this future scenario was exactly what François Mitterrand and Helmut Kohl were trying to avoid at Maastricht. The United Kingdom (UK) prime minister, Margaret Thatcher, for her part, had never been sold on the merits of a common currency and was more skeptical of the view that the euro would somehow solve the "German problem." Wilfried Loth

18 See Craig Parsons/Matthias Matthijs, European Integration Past, Present, and Future. Moving Forward Through Crisis?, in: ibid., pp. 210–32.
19 See Philipp Genschel/Markus Jachtenfuchs (eds.), Beyond the Regulatory Polity? The European Integration of Core State Powers, Oxford 2014.
20 See Alison Johnston/Aidan Regan, European Monetary Integration and the Incompatibility of National Varieties of Capitalism, in: Journal of Common Market Studies 54 (2016), pp. 318–36.
21 See Matthias Matthijs, The Euro's "Winner-Take-All" Political Economy. Institutional Choices, Policy Drift, and Diverging Patterns of Inequality, in: Politics & Society 44 (2016), pp. 393–422.

quotes Thatcher speaking at a dinner at the French embassy in London in March 1990, maintaining that "the European construct will not bind Germany, but rather Germany will dominate the European construct."[22] Her remark would turn out to be more prescient than most EU observers gave her credit for at the time. In 2010, with close to 30 percent of the overall eurozone GDP and in its position as its main creditor state, Germany had disproportionate decision-making power on what the crisis response would be. But instead of using that power to provide regional public goods – by serving as the ultimate market, investor, and lender of last resort for the rest of the eurozone – the policy elites in Berlin continued to think of themselves as the managers of a small open economy, and doubled down on the importance of following the rules EU member states had agreed to in the 1990s.

This German mentality can be illustrated by the thinking of the German finance minister, Wolfgang Schäuble, who, in a public speech at the Sorbonne in Paris in November 2010, invoked the teachings of the late MIT economic historian Charles Kindleberger to Europe's crisis.[23] For Kindleberger, the main cause of the Great Depression of the 1930s had been the fact that a reduced United Kingdom could no longer play the role of leader or "hegemon" in the international economy, and that the United States – in the midst of a spell of isolationism at the time – was unwilling to do so. Kindleberger's view of leadership during crises was that one state had to act as the basic guarantor of "global public goods," which included serving as a market for "distress goods" (goods unable to find a buyer), providing counter-cyclical lending, acting as a lender of last resort, managing a system of stable exchange rates, and coordinating overall macroeconomic policy.[24] Schäuble, a trained lawyer, had apparently read Kindleberger very differently. In his speech, he explained that responsible leadership simply meant France and Germany respecting and following the rules they had set for themselves at Maastricht. This, of course, meant practicing budgetary restraint and by all means avoiding the risk of moral hazard. Unfortunately, that was exactly the opposite of what Kindleberger originally had in mind.

If we assess Germany's performance as Europe's provider of "regional public goods" (as defined by Kindleberger) before and during the euro crisis, the immediate conclusion is that it has underperformed and underdelivered.[25] First, rather

22 Loth, Helmut Kohl, p. 176.

23 See Matthias Matthijs, The Three Faces of German Leadership, in: Survival 58 (2016), pp. 135–54.

24 Charles Kindleberger, The World in Depression, 1929–1939, Berkeley/CA 1973, p. 291.

25 See Foreign Affairs from November 17, 2011: "Why Only Germany Can Fix the Euro" (Matthias Matthijs/Mark Blyth); www.foreignaffairs.com/articles/germany/2011-11-17/why-only-germany-can-fix-euro [accessed February 25, 2019].

than letting itself be a market for distress goods, Germany continued to export more than it imported during the crisis, and declined to increase its own domestic consumption or spur its public and private investment. Second, instead of practicing counter-cyclical lending, Germany's banking sector did the opposite: the pattern was one of excessive lending to Europe's periphery during the boom combined with a sudden stop of capital during the bust. Third, far from allowing the ECB to reinterpret its mandate so as to become a real lender of last resort, the German government generally favored limiting the ECB's powers by emphasizing its policy constraints, given its narrow mandate to maintain price stability. Fourth, Berlin has dictated a policy of "austerity for all" to the rest of Europe instead of coordinating a macroeconomic policy in which the North would inflate through higher spending while the South would deflate and practice austerity.

The difference between the role Germany played during the euro crisis and the one the United States played in the global financial crisis of 2008 is quite striking: the US seems to have learnt Kindleberger's lessons from the 1930s and decided to lead the world economy by making sure that this time it provided the necessary global public goods. This could well be one of the main reasons why the euro crisis has lasted for years without any clear resolution, while the global recession bottomed out in March 2009, and the recovery began just seven months after the collapse of investment bank Lehman Brothers in September 2008.

There is of course a historical rationale for Germany's orthodox response to the euro crisis. First and foremost, quantitative easing – the radical expansion of a central bank's balance sheet by printing new money to buy up both private and public debt, as both the US and the UK started doing in early 2009 – was more problematic for policy-makers in Frankfurt and Berlin. Not only does the ECB have a rather narrow mandate to maintain price stability, but the memory of Germany's hyperinflation in 1923 and the role it played in decimating the savings of the German middle class continues to loom large in the country's historical consciousness. Second, there is a long tradition in Germany of *Sparpolitik*, or austerity politics. It appeals to the idea of the Swabian *Hausfrau*, invoked by Angela Merkel in 2008, as the responsible German homemaker who frugally manages the household finances.[26] Third, at least in the mind of the popular Anglo-Saxon press, the word "debt" in German – *Schuld* – also means "guilt" and therefore carries mainly negative connotations.

The contemporary importance of rules is also related to a specific German legal culture going back to the *Rechtsstaat* of the Wilhelmine period, and should

26 The Economist of February 1, 2014: "The German Mentality. Hail, The Swabian Housewife"; www.economist.com/europe/2014/02/01/hail-the-swabian-housewife [accessed February 25, 2019].

be seen as a reaction to the traumatic experience of the Third Reich with its complete disregard for the rule of law. The German legal system is characterized by a much higher regulatory density compared to law in the Anglo-Saxon countries where common law – which relies on custom and judicial precedent – informs decision-making. The different responses to financial crisis in the US and in Germany could therefore also be understood as having a basis in the distinction the German political scientist Karl Rohe found between a "legalistic" and a "conventional" political culture. Germany's specific legalistic political culture is centered upon *Rechtsstaatlichkeit* in the sense of judicial verifiability of the executive's actions and it therefore aims at codifications that are as comprehensive as possible.[27] Judicial oversight was notably absent from the US 2008 bank bailout and the Federal Reserve's international swap arrangements.[28] The main point is not that rules should not be an integral part of the governance of any currency union with multiple member states, but that they cannot replace public goods provision during periods of stress. In such extraordinary times, enlightened leadership means having the political will to ignore the rules for a temporary period in order to serve the common good.[29]

From a political perspective, the popular perception of an all-powerful Germany imposing draconian terms on Southern Europe, especially in Greece, has been very bad for the European project. The whole point of the European Union – and of the euro – was to commit the "German Problem" to the dustbin of history once and for all. After the long night of negotiations in July 2015, when the leftwing Syriza government in Greece was forced to choose between "Grexit" (exit from the eurozone) or the humiliating acceptance of much harsher bailout terms, which Greek voters had rejected in a referendum only one week earlier, the former German foreign minister, Joschka Fischer, saw to his horror "the return of the Ugly German." By compelling a member of the eurozone to make a "voluntary" departure, Germany, Fischer believed, "announced its desire to transform the eurozone from a European project into a kind of sphere of influence."[30] This

27 See Karl Rohe, Zur Typologie politischer Kulturen in westlichen Demokratien. Überlegungen am Beispiel Großbritanniens und Deutschlands, in: Heinz Dollinger et al. (eds.), Weltpolitik, Europagedanke, Regionalismus. Festschrift für Heinz Gollwitzer, Münster 1982, pp. 581–96.
28 See Adam Tooze, Crashed. How a Decade of Financial Crises Changed the World, London 2018, chapter 8.
29 See Erik Jones, Elusive Power – Essential Leadership, in: Survival 51 (2009), pp. 243–52.
30 Project Syndicate from July 23, 2015: "The Return of the Ugly German," (Joschka Fischer); www.project-syndicate.org/commentary/return-of-the-ugly-german-by-joschka-fischer-2015-07 [accessed February 25, 2019].

may have been an exaggeration, but it was a view that was shared by much of the political elite in Southern Europe and by many in the Anglo-Saxon world.

Conclusion

After a relatively calm first decade for the euro, and a turbulent second decade, the open question before us is: what will the third decade bring? The euro crisis has only been one of a series of overlapping and interrelated crises that could be described as a perfect European storm. In the past five years, Europe has had to deal with a crisis of refugees and migration, Russia's annexation of Crimea and military intervention in Eastern Ukraine, the British vote to leave the European Union, and a gradual backsliding of democratic norms and the rule of law in multiple Central and Eastern European countries, especially in Hungary and Poland. But it is the euro crisis that has been at the heart of the EU's problems with further integration, as it has opened up the multiple dilemmas Europe faces. As long as the single currency is perceived mainly to serve the interests of a few Northern core member states, it will remain a politically fragile endeavor. The task the EU elites need to set themselves in the next decade is to spread the euro's prosperity more evenly across its member states, and allow a greater amount of democratic choice on which policies national governments can pursue to offset the negative effects of the ECB's one-size-fits-all monetary policy. That is the only way forward, if Brussels wants to take the wind out of the sails of euro-skeptic and nationalist movements across the continent. Whether the officials can deliver on that task remains an open question.