### Contents

1	Introduction	Í
	PART I: POWER SHIFTS AND	
	GERMAN-FRENCH DIFFERENCES	
2	Power Shifts	17
	Lethargy of European Institutions	18
	The First Power Shift: From Brussels to National Capitals	20
	The Second Power Shift: To Berlin-Paris and	
	Ultimately to Berlin	27
	After the Power Shift	33
3	Historical Roots of German-French Differences	40
	Cultural Differences	41
	Federalism versus Centralism	43
	Mittelstand versus National Champions	48
	Collaborative versus Confrontational Labor Unions	51
	Historical Inflation Experiences	54
4	German-French Differences in Economic Philosophies	56
	Fluid Traditions: Switch to Opposites	56
	German Economic Tradition	59
	French Economic Tradition	67
	International Economics	74

#### CONTENTS

# PART II: MONETARY AND FISCAL STABILITY: THE GHOST OF MAASTRICHT

5	Rules, Flexibility, Credibility, and Commitment	85
	Time-Inconsistency: Ex Ante versus Ex Post	86
	External Commitments: Currency Pegs, Unions, and the Gold Standard	89
	Internal Commitments: Reputation and Institutional Design	91
	Managing Current versus Avoiding Future Crisis	94
6	Liability versus Solidarity: No-Bailout Clause and Fiscal Union	97
	The No-Bailout Clause	98
	Fiscal Unions	100
	Eurobonds	111
	Policy Recommendations	115
7	Solvency versus Liquidity	116
	Buildup of Imbalances and the Naked Swimmer	117
	Solvency	118
	Liquidity	119
	Crossing the Rubicon via Default	125
	Sovereign-Debt Restructuring and Insolvency Mechanism	126
	Fiscal Push: Increasing Scale and Scope of EFSF and ESM	127
	Monetary Push	131
	Policy Recommendations	133
8	Austerity versus Stimulus	135
	The Fiscal Multiplier Debate	137
	The Output Gap versus Unsustainable Booms Debate	143
	Politics Connects Structural Reforms and Austerity	145
	The European Policy Debate on Austerity versus Stimulus	148
	Lessons and Policy Recommendations	153

#### CONTENTS

# PART III: FINANCIAL STABILITY: MAASTRICHT'S STEPCHILD

9	The Role of the Financial Sector	157
	Traditional Banking	159
	Modern Banking and Capital Markets	162
	Cross-Border Capital Flows and the Interbank Market	166
10	Financial Crises: Mechanisms and Management	173
	Financial Crisis Mechanisms	175
	Crisis Management: Monetary Policy	185
	Crisis Management: Fiscal Policy and Regulatory Measures	194
	Ex Ante Policy: Preventing a Crisis	206
11	Banking Union, European Safe Bonds, and Exit Risk	210
	Banking in a Currency Union	211
	Safe Assets: Flight-to-Safety Cross-Border Capital Flows	222
	Redenomination and Exit Risks	226
	Policy Recommendations	233
	PART IV: OTHERS' PERSPECTIVES	
12	Italy	237
	Battling Economic Philosophies within Italy	237
	Mezzogiorno: Convergence or Divergence within	
	a Transfer Union	239
	Italy's Economic Challenges	242
	Politics and Decline	245
13	Anglo-American Economics and Global Perspectives	249
	Diverging Traditions	251
	The United States: The Politics of Looking for Recovery	261
	The United Kingdom: Brexit and the Politics of	
	Thinking Outside Europe	267
	China and Russia	279
	Conclusion	286

### CONTENTS

14	The International Monetary Fund (IMF)	287
	The IMF's Philosophy and Crisis Management	289
	The IMF's Initial Involvement in the Euro Crisis	295
	The IMF and the Troika	300
	A Change in the IMF's Leadership	304
	Loss of Credibility: Muddling Through, Delayed Greek PSI	306
15	European Central Bank (ECB)	313
	The ECB before the Crisis: Institutional Design and Philosophy	315
	The ECB's Early Successes and Defeats	325
	The ECB and Conditionality	331
	Lending and Asset Purchase Programs	343
	Single Supervisory Mechanism (SSM) for European Banks	368
	Taking Stock: Where Does the ECB Stand?	372
16	Conclusion: Black and White or Twenty-Eight Shades of Gray?	375
	Acknowledgments	391
	Notes	393
	Index	427