The reasons why the crisis is here to stay

This is a fantastic book. Why? Not only have Matthijs and Blyth brought together an impressive group of political economists, they have also succeeded in making them work collectively on a strong agenda. The result is a crafted book in which each account goes hand in hand with the next, cumulating in a thorough and bitter assessment of the euro crisis. The kernel of the message: despite all rescue and institutional reform efforts undertaken so far, the crisis is here to stay. The euro lacks the political embeddedness that any currency union in the history of mankind has developed in order to be successful. Political unions have always preceded monetary unions. The euro reversed this sequence and without any great reforms on the political side it is bound to fail—if not with this crisis then with the next.

A view from afar

The refreshing gist of this book is that it is written by scholars that, although some from Europe, have since long found an academic home in the United States. It offers us the analytic leverage of the objective outside observer, the bystander that is not entangled or directly affected by the phenomenon. European scholars have lost this virtue ever more since the euro crisis started in 2009. Their cultural frames and anchoring within their national epistemic communities trap them in a whirl of *ex ante* prejudices about cold-hearted northern member states or profligate southern peripheral countries. This cultural stereotyping exacerbated with each year of the crisis and brought back a rift between European nations that the project of the euro was designed to overcome in the first place.

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Another big plus of the book is the epistemological take of the authors. All belong to the historical institutionalist camp, a school within political science emphasising the importance of past historical events on the unfolding of the future. Moreover, historical institutionalism argues that only when taking economic, political, social and cultural factors jointly into account can we reach good conclusions. It is the countermovement to the present-day hyper specialization of social science which led to the paradox of knowing “ever more about less and less”, as Peter Maier puts it, and which is arguably one of the reasons why we got into the crisis and can’t find a way out.

The book makes a strong argument for a political embedding of the economic and fiscal institutions of the euro. It has a clear Polanyian bent but the freshness is that this conclusion is derived empirically not through an a priori rallying around the currently so hyper-hyped thinkers of the European left. Outstanding in this respect is Kathleen McNamara’s opening chapter in which she examines currency unions throughout history distilling a set of minimum requirements for a working currency union from her historical analysis. (Not so) surprisingly, the euro does not feature a single one of these prerequisites. Wonderful and telling are also the analyses of different euro members, especially, Germany, France, Spain and Italy, which contain careful reconstructions of their actions during the crisis years of 2009 to 2013 and even more careful reasoning of how their actions were conditioned through a interrelated mix of economic, cultural, electoral factors embedded in a contingent stream of history.

Germany: the (not so) reluctant hegemon

Why is Europe so dependent on Germany for a solution of the current mess? Here the book nicely shows how, since reunification, Germany rose to a continental hegemon, not only by including 20 million east Germans but also because the other important euro countries declined in their political and economic influence during the same time. Insightful are the assessments of France, which show how and why it has fallen from great-power status and essential part of the twin engine of Europe, to the role of a middle child squeezed between northern austerity and southern neo-Keynesian stimulus pledges. Likewise the book carves out the mechanisms through which Spain quickly transformed from *Wunderkind* to problem child and how the crisis held the Italian economy in iron grip as liquidity for Italian firms dried up through the aftermath of the European banking crisis.

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Germany fails to lead us out of the crisis due to a complicated and interrelated sequence of historical events: reunification was a huge burden followed by sluggish growth high unemployment and large transfers from west to east, which in the end led to harsh reforms of the welfare state. This set a limit to the solidarity of German voters. The accentuation of the German economic export-led growth model in the 2000s jumpstarted growth in Germany but led to huge trade deficits in peripheral euro countries. Export-led growth turned Germany from sick man during the early years of the euro to strong man during the crisis. All of it led to a situation where Germany is profiting from the current sour state of the Euro more than it would gain from resolving the crisis once and for all.

> The book successfully debunks myths of a European sovereign debt crisis triggered through welfare state expansion, used by northern European politicians to justify their austerity prescription in the south.

Even if this situation was not caused by evil intent by German policy-makers it makes a solving of the Euro crisis difficult, if not impossible. The authors rightly point to a puzzling irritation here: in the long run austerity in the south will undercut the German export model. Might raising more awareness about this with German policy-makers be a way out of the crisis? The authors rightly suggest that the problem here might be that German economists and policymakers do not see the problems of the new German growth model. Voters and politicians attribute Germany's current economic success to the dire welfare cuts of the Hartz IV legislation—which had little impact on growth—and not to exports.

The book successfully debunks myths of a European sovereign debt crisis triggered through welfare state expansion, used by northern European politicians to justify their austerity prescription in the south. The reality that the export-driven economies in the north create huge problems in the south leaves a bitter taste. It degrades the current northern European moral tone towards the "sinners" of the south to the slogan "prosperity for us, austerity for you" as one of the contributors put it.

What about the future of the euro?

Where are the weaknesses of the book? There are not many. Maybe the authors could have devoted more attention and discussed a bit more a way out of the crisis. The last chapter includes a review of different reform proposals that circulated till 2013 between politics, academia and think tanks. Matthijs and Blyth point rightly out that there is much "wishful thinking" but little advice on how it should politically be brought about. However, they themselves fall short in pointing the way. This is a pity, because they brought together such exemplary accounts how economy, institutions, electorates and politics all interact and evolve during the crisis so they could have also speculated about how to use the interrelatedness of these factors to push for a positive outcome. But a book can only do so much. This book has already done a lot. Maybe the next book by the authors can follow up.

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