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The European Union's attempt to establish a strong, single currency for itself has been an interesting economic experiment, watched closely not just by those in Europe but by the rest of the world as well. Unfortunately, this currency failed to meet the expectations that were so hopefully heaped upon it. Many opinions have been offered and debated over as to why this is. Two opinions that have surfaced often in mainstream economics are the lack of labor mobility and problem of divergence among the countries. There are two other opinions, however, that are not mentioned as much but that give a more well-rounded understanding of the issues. The first is Philip Bagus' "moral hazard" problem, an issue that is inherent to the Eurozone system. There is another issue that Bagus touches on in relation to his moral hazard thesis, but which seems to be a concern in and of itself. This is the inherent illogic in the original conception of the EU, resulting from the very different ideologies that went into its making.

Despite the initial hype, the euro has not performed as well as people expected or hoped. The Center for European Reform published a Conference Report in 2015 that discusses this fact. A number of different individuals gave their opinion on the euro's performance at this conference. The first opinion was that the euro had not accomplished everything it was supposed to, but that it had lasted longer than critics had expected it to. Furthermore, European citizens are still positive about it and hope that will improve in the future. This person also argued that the reforms that had been put in place were helping the economy get back on its feet. In a more negative opinion, someone else noted that between 2008 and 2015, the Eurozone had experienced negligible growth. The United States, Britain, and the non-euro EU countries had all experienced a lot of growth relative to the euro area. Specifically, the Eurozone has 11% unemployment, while the rest of the EU only has 5% unemployment. This person also argued no “lender of last resort” existed for the countries to turn to when a crisis occurred and that the emphasis on keeping deficits low put a lot of pressure on governments. From this person’s perspective, the EU as a whole was not doing enough for the individual countries and needed to take a more aggressive approach. The third person argued that euro’s poor performance can be pinned on poor fiscal behavior. They argued that reforms have had a positive impact, but that problems still exist. The European Central Bank became the lender of last resort and expanded the money supply; the downside to the ECB playing this role was the incentive for countries to keep racking up debt because they knew they were covered. This meant that more rules needed to be put in place to keep countries on track and prevent them from being irresponsible. This individual takes the view that the EU has done too much and gotten too involved, to the point that the member nations have become dependent on outside support. The final person argued that the Eurozone had failed to achieve optimality, because of divergent tax rates and a lack of labor mobility. These person combines two of the most common arguments – issues with labor mobility and the lack of similarity among these nations. The UK and the US have more private interest and much less unemployment. Whatever the reasons the details they focus on or the reasons they give, all of these panelist were agreed that the euro experiment had significant problems, if it was not a failure (Centre for European Reform). Statistics support the claims that the euro is not the success it was supposed to be.

The OECD published a survey on gross public debt in the EU. Between 2000 and 2005, debt fluctuated between 66% and 69%. Between 2005 and 2007, it decreased from 69% to 65%. Starting in 2007, it saw a massive increased until 2015, going from 65% to

95% in that time span. After 2015, it decreased slightly and is currently at 93%. It is projected to decrease into 2017, but not very much. The unemployment statistics can give an idea of the performance of each individual country. France, Germany, Portugal, Ireland, Italy, Greece, and Spain are the major countries. France had 9.1% unemployment in 1991 and 9.9% in 2014. Portugal had 3.9% in 1991 and 14.2% in 2014. Ireland had 15.8% in 1991 and 11.6% in 2014. Italy had 10.1% in 1991 and 11.6% in 2014. Germany had 5.6% in 1991 and 5.0% in 2014. Greece had 7.7% in 1991 and 26.3% in 2014. Spain had 16.4% in 1991 and 24.7% in 2014 (OECD, 2016).

A number of people claim that the reason for the Euro's lack of success is its low labor mobility, which is not sufficient to balance out the countries and generate the convergence that is needed for the euro to be a success. Labor mobility is mentioned in the third condition that countries have to meet, which is that they have to have a common economy. "Common economy" means that products, capital, and workers can move freely between EU countries in response to changes in prices. This means that industries will have already started making adjustments to handle increased competition. If they do not make these adjustments beforehand, the competition will be too much for the less competitive businesses and they will not be able to keep up (Sheridan, p. 46).

The European Union has experienced some increased labor mobility, especially from the poorer countries to the richer ones, since the euro was established, but not as much as it needs. Between 2007 and 2013, the harmonized unemployment rate (percentage of unemployed across the total workforce) increased. For individual countries, unemployment increased in some and decreased in others. In 2011, migration in Europe was four times that of outside migration into Europe. In 2013, seven million people worked in a different country, which was only 3.3% of the EU workforce. 68% of people living in a country that was not their own were employed, which was actually higher than the percentage of those employed in the home country. On the other hand, the US had 2.7% mobility, while Europe's mobility was only 0.2%. Mobility is anything from permanent residence to daily travel, so it is surprising that mobility was so low even with this broad definition (OECD, 2014).

Another major change that Europe experienced – the collapse of the Soviet Union – was accompanied by a change in levels of labor mobility. The original nations were worried about a huge migration as citizens of these countries pursued higher wages in the richer nations. Everyone but the UK, Ireland, and Sweden closed their labor markets in 2004. These three nations left the markets open because they were further away from the influx and less likely to be affected by it. Upon arriving in Western Europe and discovering that most of the nations were closed to them, some migrants actually made the trek to the UK and Ireland. Sweden received fewer immigrants they themselves were experiencing high unemployment and because their language is difficult to learn (Bahna, pp. 844-845).

Finally, the financial crisis of 2008 also saw marked differences in labor mobility before and afterwards. Before the crisis, from 2004 to 2008, 0.5% of Poland and Latvia's population moved to a EU15 country each year. For Lithuania, it was almost 1% a year; for Bulgaria, it was 1.5%. Temporary restrictions had to be put in place to keep people out of Germany, who was overflowing with migrants, and direct them to Ireland and the UK, who generally had fewer immigrants. Most immigrants elected to go to Spain and Italy. So many people were pouring out of Bulgaria and Romania that they had to be restricted to only a few countries until 2014 (Barslund, p. 3). After the financial crisis, from 2009 to 2013, more workers went to Germany, Austria, Belgium, and the Nordic countries that did from 2004 to 2008, while fewer went to Spain and Ireland. Furthermore, more people moved from countries to the south than did from 2004 to 2008; there was an increase of 38%. Fewer people moved from Poland, with a decrease of 41%, and Romania, with a decrease of 33%, than did from 2004 to 2008 (European Commission).

Furthermore, unemployment rose in the EU15 (richer) countries as a result of the crisis, which meant that the citizens of EU10 (poorer) countries did not have as much of an incentive to leave their home country to find a job somewhere else. At 388, 300 (or 1.0% of the population), Germany had the fewest people leave. Romania had the highest, at 1,290,700 (14.0% of the population). In general, the countries that had a higher number of workers leave to find work were either former Soviet nations or countries who were struggling financially, like Greece and Portugal. At the same time, more people were leaving the EU15 countries, although the numbers still were not very high. At the end of the day, mobility did not increase significantly; the shift in destination was more noticeable than changes in the numbers. The governments have reduced barriers to mobility over time, but that has not helped generated a drastic increase in migration. Mobility is still considered too low for a single market or to bring balance to the Eurozone after its crisis. Most of the mobility has been the result of a wide income gap between the original member (EU15) states and the Eastern states that have since joined (EU10). There is not a very big wage gap among the EU15 states, so there is no incentive for citizens of these countries to move from their homes to find a job elsewhere. There are a number of challenges to both individual actors and states when it comes to labor mobility. The challenges to people include difficulty in accessing information about jobs and transfer of educational qualifications (Barslund, p. 4).

Another explanation for the state of the Eurozone that is often put forward is disparity between its member countries. Arestis, Mariscal, Brown, and Sawyer claim that the Eurozone nations have not become more similar to each other since the birth of the euro; in fact, it seems that they have become *less* similar as time has gone on. Because it is difficult for the countries to agree on what monetary and fiscal policies to adopt and because the system does not have a way of shifting resources to areas that need it, it is especially important for these convergence and therefore a major problem that they do not (p. 71). The authors later go on to say that "[w]ithout such convergence, Economic and Monetary Union (EMU) will enforce inappropriate economic policies on its member states, constrain automatic and discretionary fiscal stabilization, and negate room for maneuver in the face of economies asymmetries. In addition, a heavy burden of coordination is placed upon the Eurosystem. Clearly, the need to pursue a coherent monetary policy…is urgent (p. 73)." The countries still do not have matching economic cycles. Shocks are asymmetric and do not have the same impact across the board. It is also clear that the policy needs of each country are very different. Optimality was not achieved in the beginning and it has not been brought around by the existence of the euro, as some had hoped.

There are a number of conditions that the Eurozone countries had to meet in order to establish an optimum currency area; all of these conditions involved making the countries similar to each other. The first condition is similar economies, which means “compatible structure, similar goods and services, and the same level of diversification.” If the economies are the same, then the shocks that the currency area experiences will be the same, and the single currency will be a positive asset. Different currencies require adjustment relative to other countries, so having a single currency eliminates this issue. If the economies are different, then the shocks will be different, and a single currency will be negative. If they have different currencies, then the country that experienced the shock can adjust without hurting other nations; if they have the same currency, one nation will be hurt and the other will benefit. For example, if the demand for the product of a country decreases, then the demand for that country’s unit of currency will also decrease, driving down the value of that currency relative to other countries. If the currency is not allowed to depreciate, the shocked economy will not recover, because the supply of euros will be greater than the demand for euros to buy that country’s goods. If the euro does depreciate, the non-shocked economies will have to deal with higher prices on their imports (because their currency is not worth as much) and the pressure to inflate (Sheridan, pp. 44-45).

The second condition is that recessions and expansions need to happen at the same time. If all the members of the currency area are in the same cycle, then their adjustment to the interest rate will be the same. If they are in different cycles, then their adjustments to the interest rate will be different. If one country is in a recession, they need a low interest rate; if they are in an expansion, they need a high interest rate so inflation will not happen. If they share a currency, they cannot have different interest rates, which means their economies need to be in the same cycle (Sheridan, p. 46). The third condition applies more to labor mobility than to divergent economies. The fourth economy is that all the countries have the same approach to economic policy. If all the nations are on the same page about policy, the public will deal with it. If they are not, political conflicts could ensue and undermine support for the euro (Sheridan, pp. 46-47).

In the 2008, when the global financial crisis occurred, the Eurozone countries were exhibiting very different behavior. Germany, whose original currency had been strong and who had been hesitant about the adoption of the euro, was spending less and seeking to improve their industry. They had a history of good fiscal habits and had more of an incentive than ever to keep a lid on their behavior. For Ireland and Spain, it was exactly the opposite. They euro put them in a better place than they had been before, so they were a lot more fiscally irresponsible than Germany. Borrowing increased due to the low interest rates. Wages, prices, and inflation all increased. Greece had a history of financial profligacy and completely lost control. Wages to government workers, which are the first to be cut in a time of crisis, increased rapidly. They claimed that their debt and deficit was lower than it actually was so the rest of the world would not know about their poor financial decisions. Portugal and Italy dealt with sluggish economies. They experienced little growth and did not try increase it. France's main issue was that they were not competitive with other countries, but they were in denial about to this fact (Pisani-Ferry, p. 4). Under the Maastricht Treaty, the countries can only have debt as high as 60% of their GDP. All the countries have higher debt than this, but it is not all the same, showing that their approaches to economic policy are not the same. In 2014, France's debt was at 120.4% of their GDP. Germany was at 82.0%. Portugal was at 151.7%. Ireland was at 179.0%. Italy was at 156.0%. Greece was at 179.0%. Spain was at 118.9% (OECD, 2016).

In his book, “The Tragedy of the Euro”, Philip Bagus advances his argument that the reason for the euro’s failure is “moral hazard.” In practical terms, a moral hazard “is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost” (The Economic Times). In other words, if a country or institution should not practice certain behaviors, like borrowing or spending heavily, but know that someone else will come to their aid if they end up in a crisis, then they will continue to practice the poor behavior. This phenomenon can clearly be seen in the European Union, specifically in the Eurozone.

Before the crisis of 2008, which started in the United States with the collapse of subprime mortgages, many of the countries in the European Union were experiencing low interest rates for the first time and therefore the banks were borrowing heavily. When the crisis occurred, they were unable to pay off their debts. The European Central Bank ended up lending money to many of the banks to prevent them from collapsing. At a country level, the same problem existed; Greece especially had racked up a huge debt and deficit and was now in deep financial trouble. The EU knew that if Greece went bankrupt it would have a negative impact on the euro and would send the message to the rest of the world that the euro was a failure. They refused to allow that to happen, so they decided to bail Greece out. They also realized that Greece would not be able to pay back any of its debts. At this point, they had two options. They could either undergo debt restructuring, which would have made private banks responsible for the debt. Greece was naturally in favor of this solution, even though it would have hurt their banks. The other option was to simply keep lending money to Greece. France and the ECB preferred this option, because they were afraid that if they allowed Greece to restructure, other countries would lose faith in Europe's ability to pay back their debts. The European Stability Mechanism (ESM) was put in place in 2012 to lend to countries that were struggling, because the Eurozone had decided that they needed a way to respond to issues that countries were experiencing. Again, they were so concerned with making the euro project work that they stripped these countries of any incentive to govern their fiscal and monetary habits (Pisani-Ferry, pp. 6-11).

The EU eventually had to do for Ireland and Portugal what they had done for Greece. When Spain and Italy started experiencing problems, however, they needed a different solution, because their economies were huge and the EU lacked the money to bail them out. The situation in these two countries got so bad that even financially secure borrowers were not able to obtain loans, which was not a situation that anyone had foreseen. This situation should never have gone this far, and likely would not have, if Spain and Italy had not had the precedent of earlier countries being bailed out by the EU. The ECB's response was to make low-interest loans available to banks in the Eurozone for three years. In both situations, the response did not solve things permanently; soon, the countries started struggling again (Pisani-Ferry, pp. 11-18).

Once the immediate crisis was over, the governments had spent $1.6 trillion to bail out the banks. These bailouts only gave the banks more incentive to go into debt, because they knew that their countries would come to their aid. The European Union also established the European Stability Mechanism to loan money to countries that were struggling. This did for the countries what the national bailouts did for the banks – gave them an incentive to spend and borrow profligately, because they knew that the EU would not let them fail if they got into trouble. The euro was too important a project. In a desperate attempt to redeem itself, the EU also decided to write stricter rules on debt and deficit to force the nations into line (Europa). The problem was that they had already established rules like this; they had been ignored from the start by none other than Germany, the country that had been so insistent on their adoption in the first place.

Germany had enough economic weight to secure agreement to certain rules that they wanted to see established. First of all, they had wanted an independent ECB. Secondly, keeping prices steady needed to be the ECB's only policy responsibility. Thirdly, the banks were not allowed to buy bonds from the countries. Fourth, nations could not be bailed out by the bank upon insolvency. Finally, there would be a punishment for a budget deficit exceeding 3% of GDP and debt greater than 60% of GDP. France and Germany violated the deficit and debt conditions almost right away, so they became a moot point (Feldstein, pp. 106-107). With the exception of the ECB's independence, all of these rules were violated during the crisis. The ECB was only supposed to handle price stability, but they started lending money to the struggling nations, contributing to their bailouts when they were on the verge of collapse. The rule against bailout was violated without thought; the option was brought up quickly and repeated for a number of the countries. The bank also purchased bonds from the governments; fiscal discipline had gone out the window for these nations and the only concern was preventing them from failing.

The major nations in the Eurozone all trace a similar pattern of fiscal irresponsibility and assistance from the EU. Greece is especially noteworthy for their behavior. In 1981, Greece joined the European Economic Community. In 1992, the European Union was officially formed with the signing of the Maastricht Treaty. This treaty established certain standards that all the countries had to meet in order for the euro to be established. The euro was officially adopted in 1999. At this time, Greece was not able to take it on, because they their debt, deficit, and inflation were not yet low enough to meet the criteria. Greece finally took in the euro in 2001; it later came out that they had lied about their financial situation, because their deficit was greater than 3% of GDP and debt was over 100% of GDP. It was understandable that Greece did not feel any need to meet this requirement, because Germany, the very country that had been so insistent on the adoption of these stipulations, had in fact violated them not long after they adopted the euro. They had not been punished, because there was no real way to enforce the regulations. In 2004, the expenditure for the Olympic Games resulted in an increase in the deficit to 6.1% and a in the debt to 100.6% of GDP. At this point, Greece was in massive financial trouble, but no one knew about it yet. In 2007, the collapse of the US mortgage market resulted in global crisis, bringing Greece on the verge of collapse. In 2009, the new prime minister admitted that Greece's deficit was much higher than people had originally thought (Council on Foreign Relations).

Determined not to let Greece collapse, the IMF and the EU decided to bail Greece out in 2010. The stipulation they gave was that Greece had to reduce their spending and increase taxes. In 2012, they decided to bail Greece out for a second time, because the first bailout had not accomplished what they hoped it would in terms of getting Greece back on its feet. The EU made a number of other important decisions in 2012. First of all, they agreed to a treaty that would force the countries to have better budgetary habits. At the same time, EU officials and the IMF decided to decrease the interest rates on the loans they gave to Greece and to allow them to have a higher debt than they originally planned. These two decisions are a representation of the glaring problem with the EU. On the one hand, they needed a way to get the countries in line; on the other hand, they were willing to do whatever it took to get the struggling nations back on their feet. Greece knew it as well as anyone else, which meant they could ignore the standards with little concern for the consequences. In 2015, the ECB decides to release $1.1 trillion into the economy. That same year, a new prime minister was elected who wanted to get the bailout terms changed, the debt canceled, and public sector spending increased. In 2015, Greece defaulted on its loan by failing to pay $1.6 billion euros to the IMF. As of 2015, there was discussion of bailing Greece out for a third time (Council on Foreign Relations).

Spain was never officially bailed out by the EU, but they follow a similar timeline. In 2008, Spain's housing bubble burst and the government book on a deficit. In 2009, Spain established a stimulus program to try to the economy back on its feet. The same year, one of Spain's most important banks, the Caja Castilla-La Mancha was bailed out by the government. In 2010, Spain's imports started to increase, leading to the beginning of recovery for the economy. It is interesting to note that recovery was precipitated by an organic economic circumstance, rather than regulation or intervention. That same year, though, amidst panic about Greece's situation, people started to wonder if Spain was going to need a bailout as well; their deficit was at 11.2% of GDP. In 2010, Zapatero claimed that Spain was not struggling economically, but then pushed through "austerity measures", which were just measures to reduce government expenditure. These austerity measures were clearly not enough to restore the economy, because Spain's growth decreased again in 2010. The deficit was declared to be at 8% of GDP, which was above the desired 6%. The responded by pushing through more austerity measures, but these failed as well, because Spain experienced another decrease in growth in 2012. Spain's banks received assistance from the EU; the country itself was not bailed out, but the assistance it did receive had the same de-incentivizing effect as a bailout (Reuters).

In 2008, Ireland's property bubble burst and it became the first country to experience the repression. In 2009, they bailed out a number of their banks to keep them from collapsing. In 2010, after the first bailout did not accomplish what they wanted it, to lent more money to the banks. Eventually, they had to admit defeat and turn to the EU, IMF, and other euro nations for help. They received 85 billion euros in exchange for oversight of their budget by the "Troika" (European Commission, ECB, and IMF). Ireland was able to leave the program in 2013 and started experiencing some growth, but in 2016, their growth declined again (The Telegraph). Portugal received 78 billion euros in bailout money for the combined EU/IMF intervention. In return, the government decreased wages to highest-income government workers and increased taxes to these highest-wage earners. Unemployment increased in the country in 2012, signaling the failure of the efforts to kick-start the economy (BBC News).

The stronger countries in the European Union (Germany, for instance) are given more leeway than the less economically sound countries (Greece). They are in a position to dictate terms and also ignore those terms if they choose to. The less influential countries, on the other hand, are not given an opinion and are less pandered to when they fail to abide by the regulations. This could be seen in Germany's demand that certain rules be put in place to ensure that countries were behaving in a fiscally responsible manner. Germany had determined that they could not join the euro project if it did not come through on its promise of stability for prices. The reason for this was that the understanding at the time was that price stability was part of the package. If Parliament voted to join the euro, but the euro project did not ensure price stability, then Germany would have ended up with an agreement that was not the agreement they had originally signed off on. The German government was afraid that it would cause a constitutional issue for them later on, so price stability was a stipulation of their agreement to the project. This is the “stability” part of the “Stability and Growth Pact (Jones, p. 9)”

Germany was such an important country and had such a sound currency that the other countries knew the euro project would not survive without and so could not afford to do anything but give Germany what they wanted. Germany would later go on to violate the rules of the pact for the same reason; they were untouchable. The “growth” part was a contribution from France, another, powerful country who got their way when they balked and said they would not continue with the project unless certain stipulations were added. Along with Germany, France was the first country to violate the pact. Germany passed the 3% threshold for deficit in 2002, but the EU knew they could not call them out on it and just let the situation be (Jones, p. 9). Although not directly an example of “moral hazard” in the market sense, it is consistent with that behavior. Germany of all countries knew that high deficits were a poor economic choice, but continued with them anyway because they were a powerful country and did not need to fear retribution from the EU.

Interest rates had drastically decreased, which generated the moral hazard in the EU. Because the interest rates were so low, people who never been able to borrow found that they could, and they did so with impunity. Each country demonstrated this phenomena in their own way. Both banks and real estate experienced major increases in Ireland. The head of the Anglo-Irish bank made the institution successful by enabling people to obtain funds from them the quickest, instead of offering lower interest rates than other banks. The argument for this behavior, which Spain used for real estate, Portugal for credit, and Greece for debt was that "…foreign investors believed they were insulated from the risk of default because their assets somehow touched upon or presented the whole of society (Jones, p. 10).

Bagus discusses the socialist history of the European Union in light of his "moral hazard" hypothesis, but the socialist elements lead to difficulties even aside from engendering a lack of responsibility on the part of countries. The people who originally conceived of the European Union – Schuman, Adenauer, and Alcide de Gasperi – were liberals. "Liberal" here refers to support of individual liberty, private property, and the free market. Consequent to this, the Treaty of Rome was established in 1957 to ensure certain fundamental principles to the countries of Europe. These principles were "the free circulation of goods, the free offering of services, the free movement of capital, and free migration" (Bagus, p. 2). The general goal of this original conception was a single market that everyone had access to and that was free of regulation or intervention that prevented people from moving into the market. A central state did not need to exist, and in fact should not exist, because it would only have hampered the market's function. The alternative, which was the socialist approach, involved a central state that controlled the economy and manipulated it toward its own ends (Bagus, pp. 1-7).

When World War II ended, Europe was concerned about the possibility of yet another war with Germany, especially because the mishandling of the post WWI situation led directly into WWII. The solution they settled on to prevent this situation was the creation of a structure in which Germany (and the rest of Europe) would be able to flourish, but which would also make each of the nations so dependent on each other for their well-being that they would hesitate to go to war. They founded the European Economic Commission to fulfill this purpose, but it did not ensure the kind of economic prosperity they were wishing for (Smith, pp. 50-51).

When the Soviet Union fell, Western and Eastern Germany became one nation again and therefore a greater force for the liberal approach; the former Soviet nations also wanted economic freedom. The creation of the euro was the socialist group's counter-reaction, a move toward a central state, although the official argument that they put forward was a decrease in the costs involved with cross-border exchanges. Germany was economically strong, and other countries, specifically France, wanted to be able to control the country to prevent it from being able to assert economic control over Europe, as well as avoid the possibility of another war. Initially, Germany was resistant to the euro, but eventually agreed to accept it under pressure from the other nations. The country thought it was important for the individual countries' policies, both economic and financial, to be the same before a single currency was established. They were especially adamant that all the countries needed to have the same approach to inflation, was not surprising given their economic history. The Maastricht Treaty was essentially a middle ground between France and Germany. It set forth certain "convergence criteria" that would have to be established before the currency could be created, but it also gave as specific period of time for this convergence to be accomplished. In this way, it fulfilled

Germany's desire for convergence and France's desire to actually see the currency realized (Bagus, pp. 8-11).

The Maastricht Treaty also listed three stages that would occur to establish the euro. First of all, there was the phase from 1992-1993, which was the "complete liberalization of European capital markets and a strengthening of the European Exchange Rate Mechanism (Kuhnhardt, p. 106)." They experienced success in the first area and failure in the second. The second stage was from 1994-1997; the goal during this time was to establish a single approach to the economy and to finances for the entire euro area and to liberate each country's central bank. The third stage was from 1997-1999, which saw the transition of "eligible nations" to a single currency. The "eligible nations" were those who had met the standards laid out in the Maastricht Treaty (Kuhnhardt, pp. 101-107).

This treaty tangibly demonstrates the clash of socialist and capitalist ideas that Bagus noted in the formation of this project. In the first stage, the capital markets were freed from any restrictions, ensuring that capital could move across borders. Liberal economists agree that the market is the most efficient and the most productive when it is not restrained (Mises, p. 265). On the other hand, though, the Exchange Rate Mechanism was created to prevent the currencies of the individual countries from varying too much relative to each other (Yan, pp. 293-294). This obviously required coordination on the part of the member states and government interference in the economy. Rather than allowing the currencies to adjust naturally according to the laws of supply and demand, the European Union had to interfere to impose an artificially constructed system. The second stage liberated each country's bank, so they could make financial decisions without interference from the state. The problem is that these three factors – capital mobility, a “fixed exchange rate”, and an autonomous monetary system – cannot coexist. In fact, this situation is referred to as the “impossible trinity” in economics (Bluedorn and Bowdler, pp. 679-680).

The moral hazard problem is a much bigger issue for the Eurozone than either divergence or issues with labor mobility. No matter how similar the countries are or how much migration flows between them, if they have an incentive to get into steep debt or to rack up a huge budget deficit because they know that the ECB and the IMF will bail them out, they will still struggle economically. The countries are incentivized to practice damaging economic behavior; they need to be incentivized to do the opposite (Bagus, p. 107). People practice the kind of behavior that they think will benefit them– i.e. that they have an incentive to carry out (Mises, p. 146). In terms of the moral hazard problem, poor fiscal habits benefit them, because the cost is paid by someone else. In the case of Greece, they benefitted because they were able to spend as they wished and go deeply into debt, but these poor choices did not lead to their collapse because the ECB, IMF, and other institutions prevented that from happening. Those organizations ended up footing the bill that Greece should have paid, so that ultimately there was a cost, even though Greece did not have to pay it (Bagus, p. 100). Furthermore, Greece is still an economic disaster as a country. Their brief spending fling did not pay off in the long run. Had they had an economic incentive to save and monitor their budget, they would have done much better financially and would not be in the position they are in now. The clash between the socialist and capitalist elements that Bagus notes, however, cannot be dismissed. This history may not explain the whole picture, but no structure, economic or otherwise, can function if it is built on conflicting ideas. Socialism and capitalism stand in opposition to each other, and nowhere is this made more apparent than in the Maastricht Treaty itself, which attempts to establish a system that economists have shown cannot survive.

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