

Ghosts of the Habsburg Empire: Collapsing Currency Unions and Lessons for the Eurozone

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Today the Eurozone faces financial and economic problems that, if left untended, threaten the fate of the EU itself. Several paths lay open to European leaders: deeper integration, more piecemeal crisis resolution, or a possible exit from the Euro of one or more countries. Yet there are few historical examples of a currency union break-up that we can use to understand implications of the third option. This essay draws lessons from the collapse of the Habsburg Empire after World War I—the best historical case study of a disintegrating currency union—for the Eurozone. The creation of new national currencies in Central Europe in the 1920s came at a very high cost, took years to stabilize, involved extensive international monitoring, created great risks for Europe’s multinational banking enterprises, and helped create the conditions for economic instability in the 1930s. European leaders could expect similar challenges to arise were Greece, Portugal, or Spain to exit the Eurozone today. One crucial factor absent in the 1920s, and still absent today, was and is a robust European-wide financial regulatory system. Ultimately, the Habsburg case study suggests that the economic costs of preserving the Euro and creating such a banking system would be much lower than those arising from allowing one or more countries to leave the currency union.

Keywords: *Habsburg Monarchy; economic history; European Union; euro; banking crisis*

In the early months of 1919, Dr. Alois Rašín, Finance Minister of the recently independent Czechoslovakia, encountered a daunting challenge: how to create a new currency and new banking system for his nation out of the wreckage of the Habsburg Empire. Before 1918, in the lands that would become Czechoslovakia, the Habsburg Crown circulated as currency and Vienna’s banks dominated finance through a network of local branches. Rašín saw several ways to extricate his new nation’s economy from the old empire’s currency union. He could authorize the exchange of Habsburg crowns for new Czechoslovakian notes, and allow these to devalue in the hopes of avoiding a recession. Or he could sanction the exchange of crowns for new notes, but return to the prewar value of the crown through a policy of austerity and deflation. Rašín chose the latter course. “To maintain our Czech crown,” he announced before the National Assembly in February 1919, “we must

learn to balance our budget without deficit.” And he accompanied austerity with a policy of transforming the many Vienna-owned bank branches into independent Czechoslovakian banks.¹

Rašín would be assassinated by a young anarchist in early 1923, but before his untimely death he presided over the first disintegration of a major currency and banking union in the twentieth century. What, if any, lessons can be drawn from the challenges Rašín and other contemporaries faced in 1919 for the current leaders of the European Union? Today the possibility that one or more countries could leave the Euro and trigger a fragmentation of the common currency is growing with each new successive crisis—Greece, Portugal, Italy, and most recently Cyprus. And many observers have warned that a break-up of the Euro would not only be costly but also have incalculable political, social, and cultural consequences.²

Recent history seems to offer few examples of a disintegrating currency zone. One could look to the collapse of the Soviet Union in the early 1990s, which inaugurated a decade of turmoil as the former Soviet republics strove to establish their own economies and currencies. The experience of the USSR, however, which lacked real prices, property rights, and other attributes of a market economy, differs radically from that of the Eurozone today.³ Thus many believe we are entering a no man’s land in which angst rules the marketplace. Visions of economic ruin spark the imagination much more readily than politicians’ encomiums to the Euro and the Common Market.

But are there no relevant historical precedents? The immediate aftermath of World War I suggests otherwise. From the late nineteenth century until 1918 much of Central Europe belonged to the Habsburg Empire: a single, multinational market of 50 million consumers, with one currency and banking system.⁴ Following its military defeat in World War I the old Empire splintered into five new states—Austria, Hungary, Czechoslovakia, Poland, and Yugoslavia—each desiring full economic sovereignty. To be sure, the situation of the Habsburg lands differs in crucial ways from the Eurozone today: the bitter tensions of World War I, wartime inflation, and the threat of revolutions in Central Europe created an environment ill-suited for international cooperation. And few were actively trying to preserve the Habsburg Empire.⁵

Nevertheless, the economic disintegration of the Habsburg Empire offers instructive parallels for the issues European leaders might encounter were the Eurozone to break apart. First, leaders like Rašín sought to create new currencies to replace the old Habsburg crown without letting their nations’ economies descend into inflation and instability. Similar problems could easily appear today in the event that the Eurozone lost one or more of its members. Second, the Habsburg successor states, like Greece or Portugal today, were small, heavily indebted economies and they faced hard choices about managing their deficits and stimulating growth. Third, the new successor states required long-term international monitoring to help them stabilize their economies. Then as now, international institutions and investors limited the

room for maneuver for those states receiving aid, and in the process, became easy targets for radical political movements in crisis countries.

Finally, and most importantly, large banks in Vienna with extensive holdings throughout the Empire saw a radical transformation of their investment portfolio, as a single economic zone fragmented into many. The disintegration of the Habsburg currency zone contributed to the weakness and eventual collapse of Austria's largest bank, Vienna's *Creditanstalt*, which touched off financial crises across Europe in 1931. Today European banks face a similar prospect; after years of transnational expansion they have portfolios with a range of complicated cross-border assets, yet Europe's banking regulation functions only on the national level. Indeed, the Eurozone's current troubles are less a sovereign debt crisis than an extended banking crisis.⁶ Then as now, any problems with the banking sector of one nation poses a danger to the continued strength of the entire Eurozone and heightens the damage that a disorderly breakup could cause to the world economy.

Just as the failure of the *Creditanstalt* haunts the minds of economic historians, who see it as the crucial domino that tipped the world into depression, the risk of a banking collapse in Europe today is high and of no less consequence.⁷ What was absent during the interwar period and what is needed today is a country willing and able to broker a cooperative effort of creditor nations to stabilize Europe's financial system and underwrite a European-wide system of banking regulation and deposit insurance. In the 1920s Great Britain was unable to fulfill this role for Central Europe, France and the United States unwilling. Today all eyes remain fixed on Germany, the only European state with enough financial power and credibility to fulfill this task.⁸

The Rise of New Currencies and Inflation Contagion

As the First World War came to an end in November 1918, Alois Rašin and his counterparts in Hungary, Poland, and Yugoslavia began drawing plans to extricate their new nation-states economically from the Habsburg Empire. Their first challenge was creating new currencies to replace the old Habsburg Crown. In doing so they had to determine which notes and bank deposits belonged in their nations, which belonged to the rest of the empire, and how to prevent cash from abruptly flooding into or out of their countries. All of these young states tried to solve this problem by stamping the old crown notes circulating within their borders, in the hopes of creating a fixed and stable amount of currency. Only those notes bearing the national stamps would be legal tender in the new countries.⁹

Yet the marking process immediately ran into problems. Each state proceeded with the stamping at a different pace—Yugoslavia moved first in January 1919, Hungary last in March 1920—and each pursued very different monetary policies. Consequently, governments as well as private actors took advantage of this uncoordinated currency marking process, generating a wave of inflationary “contagion.”

The new governments, above all Austria, exported the inflation coming from their domestic printing press and created a massive flow of illicit currency across the new borders. International cooperation was strikingly absent as the successor states paid their foreign obligations with unstamped notes. In all of the successor states, people with capital quickly tried to transfer it abroad or convert it into non-depreciating currencies. Private forgers, moreover, made quick work of the stamps, which were easy to reproduce, and black markets for the old Habsburg crowns soon developed. Speculators did not bring their notes to be marked by government authorities, but instead waited to see which new currency would appreciate the most, or which currency would be least effected by inflation. They then forged the stamp of the stronger currency and spent these notes where they could purchase the most goods.¹⁰

Monetary chaos ensued. In order to staunch the trade in forged currencies, for example, Rašín had Czechoslovakia close its borders and suspend all postal communications for nearly two weeks. Austria's leading economic journal, *Österreichischer Volkswirt*, lamented that "our only hope—however absurd it may sound—is that the Hungarian and Polish stamps can be counterfeited just as easily as the Austrian stamp, so that it will become again more profitable to the forgers to counterfeit them . . . and that we may no longer be the victims of their favor."¹¹ As a result of poor international coordination and black market arbitrage, the currencies of all the successor states remained in serious flux for well over a year after their initial introduction, sometimes longer. Yugoslavia only took firm control over its currency in 1921, following a second stamping procedure. Czechoslovakia finally managed to stabilize its new currency at the end of 1922. Austria and Hungary both experienced severe inflations that ended only in 1922 and 1924, respectively, when they secured stabilization loans from the League of Nations.¹²

The Dilemmas of Debt

The challenge of stabilizing currencies was made even more difficult by the albatross of public debt that hung over Central Europe, a legacy of the war. The successor states dealt with their debt differently, some pursuing austerity and others relying on inflation to erode the value of their public obligations. Like all belligerents, the Habsburg Empire had financed the First World War by issuing debt and printing money. When the empire fell, the successor states agreed to distribute the war debt according to where the war bond certificates were physically located. Each of the successor states, thus, began their new life with large financial obligations to their own citizens as well as to foreign investors. Austria's debt was 129 percent of its GDP; the other successor states were not far behind. This debt came with a high cost: real interest rates in the new states topped 7.5 percent in comparison to the prewar average of 3.5 to 4 percent. How to handle these debt burdens was, in essence, a choice between austerity and inflation.¹³

Czechoslovakia, the most industrialized of the successor states, attacked its public debt at first through a combination of capital levies, domestic saving, deflation, and austerity. Yet in the process it initially suffered high unemployment rates. In 1919 Rašín created a banking department to serve as a central bank and to manage the new currency. Czechoslovakia was the only successor state to legally prohibit its central monetary authority from lending to the government. From the very beginning, then, Prague had much less room to print new money and reduce its debt through inflation. Instead, Czechoslovakia employed other techniques to raise money from its citizens and finance its obligations. First, when stamping the old Austrian crowns, the state kept half of all notes brought to the authorities as well as half of all bank deposits. This was austerity at its most extreme. In effect, the capital levy took money out of circulation, forced prices down, and raised funds for the government. This strict control of the money supply and the capital levy initially led to deflation and a contraction in exports, and Czechoslovakia suffered much higher rates of unemployment than its neighbors in the immediate postwar years. Over time, Rašín's aggressive deflation proved too harsh—the volume of currency declined by an estimated 30 percent—and his successors had to moderate his policy of austerity, stabilizing the new Czechoslovakian currency but doing so well below the crown's prewar value.¹⁴

Second, in November 1918 the new government issued a domestic liberation bond to which its citizens fully subscribed. In the coming years Czechoslovakia had no difficulty placing further public loans domestically through its well-developed, local savings bank network. These domestic public loans gave the new government better terms than the old Habsburg war bonds, allowing Czechoslovakia to finance its debt internally while demonstrating to international investors that the new government enjoyed the confidence of its citizens. After 1921, when harsh austerity was dropped, the economy rebounded and after 1923 unemployment dropped precipitously. Ultimately, Czechoslovakia balanced its budget without recourse to foreign intervention: by relying on loans from its citizens to finance public expenditures, it avoided the descent into catastrophic inflation that afflicted its neighbors. This reinforced the new government's financial credibility to international investors. By the middle of the 1920s Czechoslovakia even became a net creditor nation, exporting capital throughout southeastern Europe.¹⁵

By contrast, Austria and Hungary tackled their war debt problems with inflation. As the two major political districts within the Habsburg Empire before 1918, Austria and Hungary each had expensive bureaucracies as well as the old imperial capitals of Vienna and Budapest, where the majority of war bondholders were physically concentrated. And they spent enormous sums supplying desperately needed food to their citizens between 1919 and 1921. As a result, both countries began their new life even more heavily indebted than Czechoslovakia, and both continued to borrow extensively from their central banks to pay their war debt. At first, this policy of monetizing state debt through inflation unleashed a postwar economic boom in 1920

and 1921, as newly printed crowns flooded into the Austrian and Hungarian economies. The inflation also largely wiped out the Austrian and Hungarian state debts. Yet it eventually led to currency speculation and capital flight, eroding the value of domestic wealth, and making it much harder for either state to raise capital domestically by floating new loans to their citizens. In both cases, inflation degenerated into hyperinflation. In 1922, Austria turned to the League of Nations for a stabilization loan to resolve its crisis. Hungary followed suit, requesting aid from the League two years later.¹⁶

International Monitoring: Testing Democracy

The League of Nations's assistance to Austria in 1922 served as a model for how to stabilize the other economies of Central Europe, most notably Hungary and Germany. Under the guidance of Montague Norman at the Bank of England, the League floated a reconstruction loan to investors in Great Britain, America, France, Belgium, Switzerland, Italy, and the Netherlands.¹⁷ In contrast to the IMF's initial assistance to Greece in 2010, the League's loans were large relative to the size of the Austrian economy. Austria received 650 million gold crowns, enough to cover its entire projected budget deficit in 1922–1923. With this seal of approval from the League, and with a new policy that prohibited central bank lending to the government, after several years Austria and later Hungary were able to balance their budgets, bring inflation under control, and once more attract international investors.¹⁸

Yet the stabilization loans came at a cost: both Austria and Hungary were subject to extensive international oversight and the temporary loss of their economic sovereignty. For one, the League of Nations demanded that the repayment of the loans be tied explicitly to revenue sources, primarily income generated through tariffs and government monopolies. Second, the League appointed a commissioner-general in both countries to monitor the collection and distribution of revenues. Finally, the League demanded that both countries establish independent central banks, to be advised by League experts from Paris, London, and New York. Thus Austria and Hungary fell under the custodianship of foreign advisors, much like Greece today. By 1926 Austria and Hungary had balanced their budgets and the League withdrew their advisors. Only then, a full *seven* years after the collapse of the Habsburg currency zone, did they finally regain sovereignty over their domestic economies.¹⁹

International debt repayment and international monitoring, moreover, became politically explosive issues during the 1920s and 1930s. Austria and Hungary remained reliant on private international investment throughout these decades. In both states, radical right-wing movements gained easy political capital by blaming international investors and international oversight for their country's economic woes. Foreign "finance capital" and "bankocracy," often associated with Jews, became political targets across Central Europe as the region fell ever further behind

Western Europe in GDP per capita. This line of argument found its most sophisticated form in the writings of Mihail Manoilescu, a Romanian technocrat and minister of trade, who believed the root of Central Europe's economic problems lay in its commercial and financial dependency on western creditors.²⁰ Indeed, partly through this political strategy of denouncing foreign financial interests, fascist or authoritarian political regimes gained power in all of Europe's debtor nations during the 1930s, including most of the Habsburg successor states. Czechoslovakia proved the rule. A net creditor nation free from international oversight, it remained a democracy throughout the interwar years.²¹

The Risks of Multinational Banking

The collapse of the Habsburg Empire's currency union created instability not just for the new governments but also for their banks. Before 1914 Vienna was a regional financial center, its massive banks holding major industrial investments throughout the empire. The splintering of the Habsburg domains in 1918 fragmented what had been a single banking sphere, creating deep-rooted problems for the large Viennese banks as they were transformed into multinational institutions overnight. These banks responded to the changed situation aggressively, acquiring new businesses throughout Central Europe in an attempt to maintain their regional presence. As one bank director sanguinely argued, "political and economic borders do not necessarily have to be identical." By 1923 the Creditanstalt, Austria's single largest bank by far, held interests in more enterprises outside of Austria than within it. Austria, in other words, developed a top-heavy, highly leveraged banking sector poorly suited to its now small-sized economy.²²

Maintaining Austria's financial presence in the former empire, however, carried a high risk. The inflation of the early 1920s had badly damaged the balance sheets of Vienna's banks. To finance their acquisition of Yugoslavian, Hungarian, and Czechoslovakian enterprises these banks turned to western European investors. Of the eight great Viennese banks, western investors bought two of them outright. A British consortium, for example, acquired the Anglo-Austrian Bank in order to finance new trade opportunities in Southeastern Europe. This led to a highly unstable situation: Viennese banks were raising short-term, liquid capital in Paris, London, Zurich, and Brussels to invest in long-term, illiquid assets in Central Europe. And the precarious financial balance ended catastrophically. Following the New York stock market crash of 1929, capital flight increased across Europe, exposing Vienna's illiquid position in the former empire.²³

With no institutions or mechanisms to manage a multinational banking crisis and no deposit insurance, problems of bank liquidity became problems of bank solvency. Following several years of bank mergers in Austria, the Creditanstalt of Vienna acquired the Bodenkreditanstalt in 1929, which held investments throughout the

former Habsburg Empire. And the timing of this could not have been worse. In May 1931 the Creditanstalt, now Austria's largest bank and an institution heavily dependent on western European investors, announced losses of 140 million schillings that had accrued from the previous years' consolidations and the general decline in asset prices that had been unfolding since 1929. By the end of the month, the Creditanstalt lost another 200 million schillings worth of deposits as Western European investors withdrew their money from Austria, spurring a run on the Austrian schilling.²⁴

All available rescue efforts, weak and uncoordinated as they were, failed. The Bank of England lacked the reserves to extend more than a small bailout to the Creditanstalt. Nor could the London money market or the great financial houses of London afford to finance a substantial loan to Vienna in 1931. Instead, the Bank for International Settlements (BIS)—formed in 1930 to facilitate central bank cooperation—tried to orchestrate a rescue package. Yet the BIS worked slowly and ineffectively, and was hamstrung by the international tensions leftover from the First World War and the issue of German reparations. Its initial loan of \$14 million, small in comparison to the \$100 million in short-term foreign claims against the Creditanstalt, was exhausted within a week. France, the only European nation with gold and currency reserves deep enough to aid Austria, stalled because of political tensions with Germany over a proposed Austro-German customs union. This gave ample time for the difficulties of the Creditanstalt to morph into a full-blown crisis. As Charles Kindleberger noted, “the niggardliness and the delay proved disastrous.” This classic bank run, spooked by the fear of insolvent financial institutions with overextended positions throughout the prewar empire, sparked a new round of bank failures that reached from Berlin to London, sending Europe tumbling into depression.²⁵

Then and Now

What, then, can we glean from the collapse of the Habsburg Empire that will help us understand how a Eurozone exit might play out? While the tensions stemming from World War I made the Europe of the 1920s a much more volatile place than today, and while few were actively trying to preserve the Habsburg Empire in the 1920s, there are nevertheless several useful lessons that emerge. First, creating a new currency out of an old one cannot be done overnight. The Habsburg case shows that this is a highly fluid process susceptible to problems of collective action: black markets, speculation, competitive devaluations, and inflation contagion can be extremely difficult for states to manage. If Greece or other countries were to leave the Euro, European leaders should expect the resolution process to take a long time, that is, years not months. They should be prepared to manage arbitrage and other ways of “gaming the system” as currencies renationalize. They should do their utmost to discourage beggar-thy-neighbor policies that encourage inflation or

competitive devaluations. Money can move much faster today than it did a century ago, and the threat that a country like Greece could lose most of its bank deposits when establishing a new currency is even greater than it was for the successor states in 1919.²⁶

EU leaders should also expect long-term involvement in the currency stabilization process for any country that leaves the Euro. League of Nations' advisors remained in Austria and Hungary until 1926. Even then they may have left too soon, insofar as markets lost confidence in Vienna and Budapest's ability to sustain their public finances without international oversight. Yet monitoring comes with a risk: during times of economic crisis a heavy dependence on international oversight and foreign loans gives radical parties the space to blame foreigners for their nation's problems. Seemingly insurmountable foreign debt is one important precondition for the rise of radical movements. Nationalist parties established power across Central and Southern Europe in the 1930s.²⁷ While the democracies of Southern Europe are much stronger today, the public remonstrations against foreign oversight indicate that a radical political turn and a resurgent nationalism remain a real possibility. Any resolution process to the current crises—preserving or jettisoning the Eurozone—will take years to play out and mean continuing involvement by international institutions like the IMF or the ECB. Thus, international financial monitoring by the IMF or European institutions must be accompanied by public support from local leaders for legitimacy, while staying attuned to the political sensibilities of these nations.

The experiences of the Habsburg successor states also illustrate at least two distinct ways to manage large state debts when creating a new currency: Alois Rašin's policy of austerity accompanied with the raising of domestic funds, or Austria and Hungary's policy of inflation followed by borrowing on global markets through international institutions. Both policies have their risks. The former, if austerity is too harsh, can lead to a severe economic contraction in the short term as was the case with Czechoslovakia. If done more gradually, moderately, and flexibly, though, it can generate credibility and put the new currency on solid footing in the long term. Yet the Czechoslovakian experience would be difficult to reproduce today. As recent research has illustrated, austerity simply does not work if every country in a region pursues it simultaneously, a roadblock EU countries are currently encountering, and in a disastrous way. If every state tries to reduce its debt and government expenditure at the same time demand will collapse and undermine the chances of economic recovery.²⁸ In the early 1920s, Czechoslovakia's diluted austerity succeeded because its neighbors—Germany, Austria, and Hungary—were running wild in the foreign debt markets and rapidly inflating their economies, which increased demand for Czechoslovakian exports and eventually made Czechoslovakia a safe haven for investors. The second option, borrowing heavily abroad, is the path of least resistance and works only if international institutions and international investors are willing to finance currency stabilization over an extended period of time.

Most importantly, European leaders must recognize that complex, multinational banking operations take time to unwind properly, and that Europe's banking system could remain fragile for years to come, with or without a Eurozone exit. During the 1920s the optimism that banks could make a smooth transition from a single to multiple currencies masked the underlying instability of Central Europe's financial system. In interwar Europe, the flow of finance ran from west to east, today it runs from north to south. Many of Germany and France's largest banks are heavily invested in the financial sectors of Mediterranean Europe, although this is slowly changing. Turning Europe into a single financial market was, after all, one of the aims of the EU reforms of the 1980s and 1990s.²⁹ Yet in the 1920s and today banks in wealthy countries were (are) exposed to unpredictable situations in economies suffering high public debt, economic stagnation, or financial instability.

In 1931, Europe's financial system collapsed suddenly when capital flight revealed the underlying weakness of the continent's banks. The Bank for International Settlements proved too weak, and Western European leaders too unwilling, to intervene. Today many fear that European banks are undercapitalized, and if put under pressure would face problems not just of illiquidity, but even insolvency. Only in November 2012 did Spain's largest banks receive an injection of capital from the Eurozone. Yet their losses on corporate loans continue to rise and these banks may need even more recapitalization to recover from the damage suffered during their nation's housing bust. Just as dangerous, the banks of in Northern Europe are still extremely leveraged and disproportionately large in comparison to their nations' GDPs. In 2011 the three largest banks in France had a combined asset footprint of 245 percent of French GDP. In Holland, a single bank—ING—has assets totally 211 percent of Dutch GDP. In some frightening respects, then, these nations' banking sectors resemble Austria's top-heavy one in the 1920s.³⁰ Just as important, Europe's banking regulation and insurance system today operates on a national level while its banks have become thoroughly multinational.³¹ Given these problems, financial contagion could spread just as quickly today as it did in 1931.

Will the Eurozone survive or will it splinter apart? The Habsburg case illustrates the costly and wrenching impact a currency zone collapse can have on a banking system, and it suggests that preserving the Eurozone would ultimately be the lesser of two economic evils. Entirely absent in the 1920s was a coherent, European-wide system of banking oversight or deposit insurance, or even the possibility of cooperation between central banks to provide such services in the event of a crisis. European leaders today should take a cue from the 1920s to argue more forcefully for revising and improving the EU's banking regulation. The ECB has already taken important steps, providing liquidity to banks in need. But if European leaders do not move banking regulation from the national to the Eurozone level, if they do not establish a Eurozone-wide deposit insurance fund to reassure investors that their assets are secure, and if they do not develop a unified banking oversight to unwind

failed banks in an organized manner, instability among Europe's financial system could remain a major obstacle to economic recovery just as it was in the 1920s.

To be sure, the immediate obstacles to a European-wide banking oversight and deposit insurance system are high. Even a modest insurance fund could cost more than 100 billion euros. To date, German politicians have balked at such proposals, both because they are reluctant to sell more Eurozone aid to their public, and because they worry their own highly leveraged local savings banks (*Landesbanken*) might come under pressure to recapitalize.³² In the long run, however, building a European banking and insurance system would most likely be cheaper than a having a country exit the currency union. Were a single country, like Greece, to leave the Euro the cost to the other Mediterranean countries of servicing their public debt would skyrocket and the market for their bonds collapse. As the value of these state bonds fell, it would damage the balance sheet of banks across Europe, which still hold much of these nations' public debt. This, in turn, would magnify the likelihood of a transnational banking crisis, the likes of which unfolded in 1931, and with it a collapse of the Eurozone. One report from ING has projected that such a Eurozone disintegration could cause GDP to fall by more than 10 percent over 2 years in Europe's leading nations.³³

Which path Europe chooses and whether it moves ahead with banking reform ultimately depends on Germany, the only country that could plausibly underwrite a cooperative effort by Northern European creditors to aid Southern Europe and oversee the continent's financial institutions. But Germany's approach to date has been piecemeal and indecisive. As a result, no clear resolution to the crisis is on the horizon. Angela Merkel's current course as chancellor of Germany has been to fight on two fronts—one international, the other domestic. Her government regularly reiterates its pledge to do "whatever it takes" to support the Euro and has always given in at the last moment to support the Eurozone with funds when needed. This strategy of gradualism not only puts further pressure on southern European states to reform, it also signals to the German public that their government is driving a hard bargain. The downside to this strategy, however, is the collateral damage it causes to the European integration process; it risks generating deeper antagonisms among the member states while it weakens the will of all domestic publics to advance integration.³⁴ Germans do not want to endlessly subsidize the supposed bad fiscal habits of others, while Spaniards, Greeks, and Italians can only take so much lecturing from their northern neighbors.

Despite the countless summit meetings aimed at rewriting the rules of the Eurozone, Europe still seems far away from resolving the complex, interconnected issues of Southern European state debt and overexposed banks. Without German decisiveness, Europe today looks much like the Europe of the 1920s, when the lack of international cooperation or decisive intervention, and the absence of a coherent banking regulatory system, led the continent to devolve into political and economic

turbulence. The world could be drifting toward a 1931 moment, when panic spreads quickly and causes unforeseen financial shifts. One hopes that the historical parallels stop there.

Notes

1. In 1919 the eight large Viennese banks maintained 68 branches in Czechoslovakia. The major exception to this was the independent, Czech-run Zivnostenska Bank in Prague. Leo Pasvolsky, *Economic Nationalism of the Danubian States* (New York, NY: Macmillan, 1928), 204–22, 259; For Rašin's own reflections on the immediate postwar separation of Czechoslovakia from the Habsburg Empire, see Alois Rašin, *Financial Policy of Czechoslovakia* (Oxford: Clarendon Press, 1923), 7–25.

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11. Quotation from de Bordes, *Austrian Crown*, 236.

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