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The Risk of Monetary Integration: How Italy and Germany's Cultural and Economic Differences are Incompatible with Shared Monetary Policy and Jeopardize the Stability of the Union

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Abstract

The project of the European Union has successfully transformed western Europe into a powerful and stable bloc empowered by expansive economic and political integration. However, certain pathways of integration, such as the introduction of the Eurozone and the monetary consolidation it entails, have actually weakened the Union by disregarding the vast economic and cultural differences between the countries. In this thesis, I use the examples of Germany and Italy, outlining and discussing various cultural and economic differences between them to show their incompatibility with a shared currency. I will substantiate this with a discussion of monetary policy, and will dissect economic and survey data to further highlight the disparity. Subsequently, I will conclude that, as evidenced by the growing tide of anti-EU sentiment in some EU countries, the Euro should be left behind for a sovereign currency or risk the total dissolution of the union—impacting both Europe and the world.

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I. Acknowledgements

Before beginning the thesis, I would like to take the time to mention some of the people who helped and supported me through the brainstorming and writing process:

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II. Introduction

Since the establishment of the European Coal and Steel Community in 1952, Europe has been actively trying to unite as a singular, dynamic force—creating its own market, organizing its own regulations, and facing the world as a single powerful entity. Following the establishment of the common market and customs regulations, a common currency was needed to continue the project of facilitating economic cooperation. Thus, in 1999, countries began to leave their sovereign currency behind for a new, common currency: the Euro. Originally used by businesses and financial markets, the Euro has grown in popularity and value, existing as the sole currency for 19 European countries ("Euro"). Though the project of the European Union has successfully made Europe a safer, more united, and more prosperous continent, certain advances in economic integration have greatly damaged the project and risk leading to its untimely end.

Considering the vast cultural and economic differences between many European countries, I will argue that the Euro, as a key component of economic integration, is fundamentally flawed and was never going to succeed in the diverse region of Europe. To support this argument, I use evidence from Germany and Italy, two similarly powerful but fundamentally different countries due to their cultural and economic backgrounds. In my analysis, I call for the Eurozone to be dissolved and all former Eurozone countries to develop their own currencies. While such a transition is politically and economically dangerous, doing so is the only way to avoid a full collapse of the union.

To develop my argument, this thesis will proceed in the following way. First, I will discuss the methods and limitations of my work, beginning with why I chose Germany and Italy as my case studies. I discuss my methods of research, the analysis I conducted, as well how I was held back by the occasional lack of new and accurate data. I then progress onto my theoretical framework, where I discuss how my thesis contributes to the already developed field of European economics by comparing cultural and economic indicators to prove the incompatibility between the two countries. After that is the literature review, where I discuss the work that has already been done in this field. This section is broken into four parts. Here, I begin with a discussion of the benefits of monetary integration, following it shortly with a discussion of the flaws, making special note of how monetary integration greatly limits a country in crisis. I then explain German and Italian reactions to austerity, and why some have said that Italy should not have joined the Eurozone. After this is a short section on the dynamics of joining the Euro, what it entails, and necessary historical information. Following this is my case study section, where I examine the divergent cultures, experiences with tax evasion, and economic indicators of Germany and Italy. I then analyze the data—showing that the countries are too culturally and economically dissimilar to have a united monetary policy. Finally, I conclude by connecting these differences to my larger thesis, illustrating that the Euro must be left behind in favor of sovereign currencies.

III. Methods & Limitations

a. Selection of Case Studies

Out of the 19 countries in the Eurozone, Germany and Italy were selected to show that even in the most powerful and seemingly similar countries in the Eurozone, great differences exist. Since these similar countries are incompatible with united monetary policy, other Eurozone countries are even more incompatible—thus supporting a dissolution of the entire monetary union. As the first and third largest countries in the Eurozone by GDP, Germany and Italy, respectively, are similarly powerful European countries (Silver 2019). They also share a similar climate, government system, population size, and economic system. Thus, these similarities allow for a more accurate and focused discussion of how the aforementioned differences, such as cultural perceptions, tax evasion, and economic differences between the two countries are solely responsible for their current incompatible economic integration.

b. Methods of Research

I chose to rely on raw economic data, peer reviewed studies, the research of established economists, and quantitative data from cross-sectional surveys to best compare the two countries. Specifically, I gathered and analyzed economic data from CountryEconomy, an online source that amalgamates data from the IMF, the European Central Bank, Eurostat, and other sources. This is used to compare economic datapoints between Italy and Germany, as well as to the rest of the world. All the data here is from 2018, unless otherwise specified. Data from the European Values Study (EVS) was also used as a means of quantifying cultural data about Germany and Italy for analysis. Data from this study was brought over to Excel, where proportions were calculated so the data between the two countries could be more easily compared. The methodology of the survey itself is further discussed in the case studies section. Additionally, economic data like credit ratings, GDP, and other indicators were ported into Excel, where averages were calculated and compared. Research by the Tax Justice Network, as well as the individual work of economists like Servaas Storm and others is used to broaden the discussion.

c. Limitations of Research

There were a few limitations that hindered this thesis. There are issues inherent to some of the sources—particularly the EVS and the work by the Tax Justice Network. The latest data available from the EVS is from 2008 as data collected in 2017 is still being analyzed and computed.

Within the last 11 years, Europe has faced the Eurocrisis, an immigration crisis, and has seen a resurgence of conservative politics. Thus, data from the survey, especially concerning attitudes toward government and the larger European Union must be taken with a grain of salt. The data from the Tax Justice Network, also, must be understood in context. Though they are an often cited source of tax evasion across the world, their work is largely the result of estimates. Tax evasion, by its very nature, occurs in the shadows and thus is hard to accurately quantify.

IV. Theoretical Framework

One of the major assumptions built into this thesis is that Germany and Italy are too culturally different, as well as economically different, to be on the same monetary policy. However, the connection between culture and economic performance has been affirmed by many scholars in the field. J. Haavard Maridal, of *The Journal of Socio-Economics* writes, "Culture is found to affect economic performance through two channels: cultural traits that stimulate individual motivation, and traits that develop social capital in the population" (Maridal 136). Quantitative research by Adriel Jost of the Swiss National Bank connects cultural ideals to monetary policy. He writes, "…while different language groups may share the economic history, they demonstrate distinct monetary policy preferences. This suggests that distinct monetary policy preferences among the populations of different countries may be determined by not only their economic histories but also their distinct cultural backgrounds" (Jost 2018). In discussing German and Italian differences, I mention how the German culture is individualist compared to Italy's collectivist culture. Psychologist Harry Triandis defines these terms as follows: "In individualist cultures, most people's social behavior is largely determined by personal goals, attitudes, and values of collectivities (families, co-workers, fellow countrymen). In collectivist cultures, most people's social behavior is largely determined by goals, attitudes, and values that are shared with some collectivity (group of persons)" (Triandis 60).

Beyond this, my thesis will contribute to existing scholarship in a few ways. Firstly, no studies have compared both the economic and cultural conditions in Italy and Germany concerning a united monetary policy. Much has been written about Germany's economic prowess and Italy's structural issues, as well as how the Eurozone has major issues from an economic standpoint. Some have also written that the Euro should be left behind altogether. I expand on this and show how the cultural and economic incompatibilities between the two countries are too great for a united monetary policy. In addition to being unique, this thesis is relevant and timely in the field of European economics. As a continent in turmoil, and given the recent trends of Euroscepticism, the EU must enact major policy reform in order to appease its members. Any country exiting the EU or the Eurozone would be catastrophic for the bloc, triggering other members to flee to the point of collapse. This is why I call for the EU to leave behind the Eurozone and allow each country to run their economies how they see fit. In a sense, they must disintegrate to uphold their integration. In order to better contextualize my argument and understand its relevance, the following section will discuss the work of other scholars in the field of European economics.

V. Literature Review

In order to understand how this thesis fits into the larger picture of European monetary integration, it is useful to first comprehend both sides of the issue: why scholars support full economic integration through the Euro and why some do not. Due to the complicated nature of the currency and the system that supports it, these two subsections will mostly be a discussion of the situation in economic terms. Additionally, in these first sections, I highlight monetary policy solutions to economic crises, as well as a broader discussion of the benefits and costs of the Eurozone. After that, Italy and Germany's reactions to austerity will be elaborated on by the writing of economists across the field, who largely conclude that austerity is a part of German culture but does not work in Italy. Concluding the section is the work of economist Servass Storm, who, much in line with the argument of this thesis, argues that Italy should never have joined the Eurozone in the first place.

A. The Benefits of Monetary Integration

On January 1st, 1999, 11 European union members signed on to European Monetary Union (EMU) and adopted the Euro—surrendering monetary sovereignty to the Frankfurt based European Central Bank ("What is the Euro Area?"). In order for the European Union to embark on the long, arduous path to monetary integration, something that historically had never before occurred, there had to be a slew of benefits for both the member countries and the union as a whole. As the European Commission states,

> "The euro was created because a single currency offers many advantages and benefits over the previous situation… Not only are fluctuation risks and exchange costs eliminated and the single market strengthened, but the euro also means closer co-operation among Member States for a stable currency and economy to the benefit of us all" ("The Benefits of the Euro").

The benefits extend far beyond the risks and cost of exchange, both of which were barriers to trade before the Euro was introduced. The Eurozone also entails more stable prices for its members, improved economic stability, better integrated financial markets, and more importantly, a larger EU presence in the global economy ("The Benefits of the Euro"). These benefits also support other core tenets of the EU, such as the free movement of labor, people, and goods. Moving to a different country within the Eurozone, whether it be for work or otherwise, is an easier process, as price homogenization ensures similar prices across the bloc and currency does not need to be exchanged. Furthermore, a single currency, combined with the customs union, better allows goods to travel from one country to another and be sold. Fine Italian shoes can be easily sold in Belgium and a *Premier Cru* Bordeaux from France can be easily bought and enjoyed in Estonia—with no extraneous trade or financial barriers getting in the way. The benefits of a single currency also apply to those who are not the citizens of the member countries. A single currency greatly facilitates tourism between the countries, as travelers do not have to exchange currency when they cross the border.

The benefits also extend beyond the micro level. On a wide, macroeconomic plane, a single currency allows for a stronger finance industry in the bloc. Due to the widespread use, implementation, and tight control of the Euro, investors are more confident investing in EU countries. This is particularly beneficial to some of the lower performing countries, as default risks are greatly minimized. Since the currency is shared and controlled by the ECB in Frankfurt, investors feel more secure lending; if a given country were unable to pay back their loans, the European Central Bank would. As Januj Juneja of the journal *Research in International Business and Finance* notes, "The uniform treatment of inherently disparate states led to enhanced dispersion in other key financial and economic variables across member states since the adoption of the common currency" (1074). One of the key metrics this is measured with is credit ratios, or a country's debt to income as a percentage of GDP. These ratios increased greatly for some of the poorer performing countries, such as Italy and Portugal during the adoption period of 1998, to 2007 (1075). He accredits this threefold rise to three factors: "These countries could now raise money using a common currency, devoid of potentially adverse consequences of exchange rate risk, enjoy the benefits of lower interest rates, and experience simpler credit driven borrowing opportunities" (1075).

However, the wealthier countries also benefit from full monetary integration. Juneja concludes that Germany, one of the EMU's founding members, "has gained disparately larger benefits from its membership in the Eurozone" when compared to other members (1074). Before looking at the causes, it is clear that during the recent Eurocrisis Germany fared far better than its poorer Eurozone counterparts. Spreads on sovereign bonds between Germany and the poorer countries that were close to zero before the crisis, grew substantially during the crisis (1075). Preexisting differences in budgets and, more significantly trade imbalances were also exacerbated during this time. It is precisely through differences in trade that Germany's edge becomes apparent, as its market for finished goods manufactured in Germany stood the most to gain from the benefits of a common currency, namely through the mitigation of exchange rate risk and other costs associated with differences in currency. Juneja notes, "such surpluses 'artificially' inflate the Euro because the increase in its value is just a reflection of the fact that the formation of the Eurozone has enabled Germans to increase their exports" (Juneja 1075). Though there is nothing inherently wrong about Germany reaping most of the benefits of integration, it is important to place Germany's successes in the context of the other countries before, during, and after the crisis—something the following three sections begin to chip away at.

B. The Costs of Monetary Integration

In order to begin to understand the downside of monetary integration in the EU, how the integration works from an economic perspective must be understood. Like the customs union in the European Union, the Eurozone involves surrendering sovereignty to an extra-national entity to make decisions on the country's behalf. While this makes more sense for the customs union, or for the free travel of labor and goods that the EU is known for, it makes little economical sense for united monetary policy. In this subsection, how monetary policy normally operates will be discussed, followed by how Eurozone is different though the non-sovereign nature of the ECB. After this, in order to highlight the differences between the EU and the US, which carries its own sovereign currency, how each country responses to crisis through monetary instruments, as well as what scholars have said, will be outlined—thus exemplifying how the Euro is conceptually flawed.

In the US, and many other countries that issue their own currency, there are two major fields of policy for balancing the budget: fiscal policy and monetary policy. Budgets passed by a legislative branch and signed by the head of state are within the realm of fiscal policy, while monetary policy, through a reserve bank like the Federal Reserve Bank ("Fed") in the US, is controlled by setting interest rates through the buying or selling of Treasury bonds to large banks. A higher interest rate means money is more expensive to borrow, and thus the money supply is tightened. A lower interest rate makes money cheaper, and thus more of it is in the economy. In a crisis, the Fed will cut interest rates, as they did in 2009, in order to encourage people to spend more to help grow the economy. Additionally, it is critical to keep monetary policy and fiscal policy politically independent from one another. As the Board of Governors of the Fed wrote, "Policymakers, academics, and other informed observers around the world have reached broad consensus that the goals of monetary policy should be established by the political authorities, but the conduct of monetary policy in pursuit of those goals should be free from political influence" ("Why it is important…"). Studies have shown that the freer a central bank is from political interference, the better inflation outcomes are without compromising economic growth ("Why it is important…").

The Eurozone, however, has a far more complicated central banking system. Instead of each country having their own central bank to issue their own currency, they all share the Euro and surrender monetary policy-making decisions to the European Central Bank. This bank, in addition to making these decisions, mints the currency and has the potential to act as politically influential. Though the ECB is set up to only make monetary decisions, such as keeping prices stable and minimizing inflation, their budgetary requirements have fiscal implications for its member countries due to the restrictions the ECB exerts. This was seen in recently in Italy, where the new government's budget that called for a 2.4% deficit to help fund social welfare programs and grow the economy was flatly rejected by the ECB (Horowitz and Erlanger 2018).

The best way to highlight the differences between a country with a sovereign monetary policy and the system in Europe is to see how each country responds to a financial crisis. In a country with their own sovereign currency, there are a few methods to help fight a crisis. One way would be injecting more money into the economy; something that would spur investment but ultimately lower its value. Another way is called deficit spending, during which countries essentially spend money they do not have on infrastructure projects and other jobs projects, hoping that the increased investment will spur economic growth. This was successful in the United States both following the Great Depression, with President Roosevelt's New Deal, and following the more recent recession, with President Obama's American Reinvestment and Recovery Act, which lowered unemployment by almost 2% and raised GDP by 4% (Lew and Porcari 2017).

These solutions require close cooperation between fiscal and monetary policy, however since Eurozone countries relinquished monetary decisions to the ECB, any Eurozone country going through a crisis has one hand tied behind their back. In order to coordinate a solution, the country's government must work with the ECB, as Italy's did. Though the ECB wants to see each member country succeed, they have the best interest of the Eurozone in mind and thus are unwilling to allow a country to risk deficit spending or inject more money into their system.

Injecting more money was a non-starter for the ECB, as lowering the value of the Euro would have made foreign trade more expensive and would have hurt wealthier countries like Germany. They also could not let the poorer countries go bankrupt, as it would drag down the value of the Euro, and thus, the wealthier countries as well. Therefore, following the Eurocrisis, something had to be done, otherwise the EU could risk falling. The solution came from Chancellor Merkel of Germany, who agreed to partially bail out these countries if they agreed to a strict set of binding German austerity policies that made countries cut spending drastically. These policies are the opposite of the aforementioned stimulus packages in in the United States, which grew the economy through spending, not saving. Former French President Francois Hollande disagreed with Merkel, as he instead wanted to create Eurobonds, cut back austerity, and increase stimulus. Nonetheless, Merkel's plan came into force and called for a number of alterations, including programs to help startups, relax some worker protections, establish special economic zones, and privatize state-owned businesses. Additionally, it enforced the ECB budgetary restrictions, such as the debt to GDP ratios by penalizing countries that exceed it, as well as start a bailout fund; all to reassure investors that Eurozone countries were safe to invest in (Amadeo 2019).

C. Discussions of Italy and Germany's Reactions to Austerity

Cutting government spending through austerity has wide reaching implications in any country, however in countries like Italy, where many businesses are state owned and the government is a big employer, the effects of austerity were exacerbated (Amadeo). Less spending means fewer jobs, which translates to less money spent in the economy, reducing its growth and raising unemployment (Amadeo). The effects of Germany austerity are also exemplified by Greece, which, like Italy, experienced growth reduction and increased unemployment that and led to the rise of an anti-austerity political party. In Italy, however, the ECB's policies did nothing to help their economy and turned the country toward nationalism and Eurosceptism. Like many countries, following austerity Italy's economic situation is still dire. A lack of income gains and one of the highest unemployment rates in the EU (behind Greece and Spain), has held back household consumption—thus holding back the economy from growing (Ivanovitch 2018). Additionally, as of August 2018, 31% of the youth are without jobs, and 11% of Italians are living below the poverty line with another 30% at risk of poverty and social exclusion (Ivanovitch). Italian GDP is still well below its 2008 level, despite having grown recently (Cassidy 2018). In 2013, 73% of Italians saw reducing the debt as a priority, with 39% of those saying they would be comfortable with new sacrifices, such as austerity (Isernia and Piccolino 2018). Four years later, only 43% of Italians supported reducing the debt, with 40% saying not to reduce the debt even at a cost of breaking with the EU (Isernia and Piccolino). Then, in 2018, in a powerful affront to German austerity and the EU, Italians elected a coalition government made of The League and the Five-Star Movement, two Eurosceptic parties who were selected to stand up to Germany and place Italian wants and needs before that of the EU.

However, German Chancellor Angela Merkel insists that the pain of austerity is necessary for economic recovery, and due to Germany's economic prowess, other EU member countries had no choice but to acquiesce (Fischer 2015). Many have turned against Merkel, criticizing her desire for debt minimization above all else. French minister Benoit Hamon said the policies were "failing" and that it was "time to finish with the politics of austerity in Europe" (Coman and Willsher 2013). Others, including her vice chancellor Sigmar Gabriel, said that her policies are driving the EU to the point of collapse by forcing countries to undergo too much reform to meet her budgetary guidelines—a notion much in line with the general argument of this thesis (Cerulus 2017). Additionally, the German policies are fundamentally opposed to how the poorer countries operate. While Germany is known for having a meticulously balanced economy, little debt, and a high savings rate, the other countries are not. As German journalist Tobias Buck notes, "Austerity is an integral part of the image that [Germans] have of themselves—and a characteristic they feel sets them apart from other nations" (Buck 2018). He notes that saving and avoiding debt is such a part of life in Germany that it is seen as an issue of morals (Buck). In countries like Italy, as well as other countries like the United States, saving and debt minimization are not engrained in each citizen. Telling countries they need to change how they operate, including cutting social services and forcing them to adopt fiscal and social policies, certainly will brew animosity between the them and Germany or the EU.

D. Italy's Big Mistake

As required by the European Central Bank, any country seeking to join the Eurozone must agree to a strict set of budgetary guidelines designed to maintain the strength of the Euro. However, when Italy joined the Eurozone at the end of the 1990s, Italy's economy took a turn for the worse—reversing decades of economic growth and setting the stage for the fiscal issues of the ensuing decades. Some economists have argued that Italy would have been stronger had it not joined the euro, as the fiscal restrictions and forced austerity was incompatible with Italy's high spending, large state economy.

Servaas Storm, of the Institute for New Economic Thinking, argued that Italy's economic woes coincided with its adoption of the Euro. He writes, "Until the early 1990s, Italy enjoyed decades of relatively robust economic growth, during which it managed to catch up with other Eurozone nations in income (per person)" (Storm 2019). Citing real GDP per capita at 2010 dollars, he notes that in the 1960s, Italy's GDP per capita was 85% of the French, and 74% of a weighted average of Belgium, France, Germany, and the Netherlands. By the mid 1990s, the same metric was 97% of France and 94% of the four European countries mentioned prior. After peaking in 1995, however, these numbers began to sharply decline just as Italy was adopting the "'legal and policy superstructure' imposed by the Maastricht Treaty of 1992, which cleared the road for the establishment of the EMU (European Monetary Union) in 1999, and the introduction of the common currency in 2002" (Storm). During this adoption period, Storm argues, Italy was a "star pupil" of the EMU, committing to the EMU's fiscal guidelines more stringently than both France and Germany. During this transitionary phase, Italy's governments actually ran a budgetary surplus, averaging 3% of GDP for the 14-year period between 1995 and 2008, even as their GDP per capita was greatly declining. During the same period, the French government ran budgetary deficits of .1% of GDP, and Germany a surplus of .7% (Storm).

The potential effects of Italy's surplus on growth, which could have gone much further in reducing its debt-to-GDP ratio, were denigrated by the ECB's high interest rates. In concluding this data, Storm asks, "Could it be true that Italy's permanent austerity, intended to lower the debt ration by running permanent primary surpluses, backfired because it slowed down economic growth?" As it turns out, it looks this way. Italy managed to maintain a surplus even during the 90s crisis, further drowning its GDP. Well aware of this, the Italian Prime Minister at that time, Mario Monti, went on CNN and admitted that they were holding to the budgetary guidelines even if that meant "'destroying domestic demand'" and pushing the economy into decline (Storm). To comply with these guidelines, as originally stated in the Maastricht Treaty, Italy had to fix its high rates in inflation and unemployment—blamed in part on "the 'excessive' power of labour unions and an 'excessively' centralized wage bargaining system… resulting in a profit squeeze" (Storm). Thus, to bring down inflation and help restore profitability, Italy had to turn to wage moderation though a "radical deregulation of labour markets" (Storm). In practice, this involved cutting protection for temporary workers, thus increasing their labor share by almost 100%, throwing the balance of temporary and permanent jobs out of proportion. Perhaps best exampling the negative effects of joining the Eurozone are seen in how ECB policy greatly reduced wage growth in Italy:

> "…the bargaining power of unions was reduced by the abandoning of the target of full employment in favour of public debt reduction… and by a much more restrictive (anti-inflation) central bank policy and the fixed exchange rate. As a result, real wage growth per employee, which averaged 3.2% per year during 1960-1992, was lowered to a mere 0.1% per year during the period 1992-1999 and to 0.6 per annum during 1999-2008. [During this period] the growth of Italian real wages per worker… was only half the real wage growth of the Euro-4" (Storm).

These policies were effective in their goals: inflation and unemployment were reduced, and profit share increased—poising Italy to set out on a period of strong growth. For comparison, during the crisis France dared to move out of the EMU guidelines, adopting a 2% deficit and raising debt to GDP to a little under 100%. This move effectively generated a €461 billion stimulus by the French state. Italy fared much worse by complying with the guidelines, draining domestic demand by €227 billion. As eloquently described by Storm, "[Italian growth] did not happen. The operation was carried out successfully, but the patient died. According to the coroner's post-mortem, the cause of death was a structural lack of aggregate demand" (Storm).

As is clear in Storm's writing, the economic data shows that, by adopting ECB policies to join the Euro and thus grow their economy, Italy's economy actually took a great downturn. Furthermore, the continued crises in the country only breeds more anti-EU sentiment, as evidenced by the growing tide of Italy First political parties in the country. In concluding his data, Storm writes "Continued stagnation will feed the resentment and anti-establishment, anti-euro forces in Italy. This will destabilize not just Italy, but the entire Eurozone… Continued austerity and real wage restraint, in combination with the de-democratization of macroeconomic policymaking… risks empowering anti-establishment forces elsewhere in the Eurozone as well" (Storm). Ominously quoting renowned economist John Maynard Keynes, he states "'Perhaps… it is historically true that no order of society ever perishes save by its own hand" (Storm).

VI. Background Information

It is worth understanding some of the major institutions working within Europe as well as economic terms relevant to this thesis to better understand the implications of my analysis. The European Union is a 28 member bloc that seeks to unite Europe, namely through common trade, customs, and movement of goods and people. Within that, there is the Economic and Monetary Union, or EMU. This entity, also known as the Eurozone, includes 19 countries that use the Euro as their sole currency and surrender monetary policy decisions to the aforementioned European Central Bank (ECB), an instrument of the EMU that, among other things, sets interest rates and safeguards inflation.

It is also worth understanding some of the economic indicators used in the thesis. Gross Domestic Product (GDP) is a widely used indicator for the general output of an economy. It is a summation of consumption, investment, government spending, and the difference between exports and imports. Most operations within an economy influence this in some way. GDP will mostly be looked at in "real" terms, meaning adjusted for inflation. GDP per capita will be discussed, which is the GDP divided by the population of the country. This "per capita" approach is also used with other economic indicators, and provide a more proportional way to compare economies.

To join the Euro, and relinquish monetary policy to the European Central Bank, countries must fulfill criteria that were created to best insure the strength and longevity of the Euro. The countries had to have annual budget deficits at or under 3% of GDP, public debt under 60% of GDP, exchange rate stability, and inflation rates near the other countries in the Eurozone, but importantly, under 2% ("Euro"). The low inflation rates were important, as both the EU and Germany were keen to avoid they hyperinflation that occurred in Germany following World War I. Though some of the Eurozone countries did not have these statistics, as the public debt ratio to GDP in Italy and Belgium exceeded 120%, they were still allowed to join based on the positive improvements they had made in working toward these economic goals ("Euro"). Once the countries joined, they handed off their monetary policy to the European Central Bank, an organization independent from the EU that would now define Euro-wide monetary policy, maintain reserves, set interest rates, mint banknotes, and handle basically all matters regarding currency and its policy that the Eurozone countries used to maintain control of ("What is the Euro Area?").

One benefit of this, especially for the poorer countries, is that foreign investors would now be more willing to invest. Since the currency was shared and was controlled by the ECB in

Frankfurt, investors felt more secure lending; if Italy was unable to pay back their loans, the ECB would. This started a dangerous cycle, as once these loans became due, the countries just borrowed money from the ECB to pay them back. This is where the recent 2009 Eurocrisis began, as the excessive borrowing lead to massive debt. As money stopped being loaned out, a recession began, sending the Italy and others into a dire economic situation, with investors losing their money, higher unemployment, and many businesses going bankrupt.

VII. Case Studies

To examine why increasing economic integration drives apart Europe, I illustrate the differences in European countries, highlighting how they are incompatible with a shared currency and close economic integration. Specifically, this section will look at Italy and Germany as strong examples of different but similarly powerful countries. Germany and Italy will be looked at in this section through three key areas: a general section on the differences in lifestyle and perception of duty, tax evasion as seen as an indicator of respect for government, and specific economic data points such as debt per capita, debt per GDP, expenditure as a percentage of GDP.

It is worth further discussing one of the major studies used in this section. About once every decade, the Leibniz Institute for Social Sciences commissions a study called the European Values Survey, which sends out a questionnaire to a selected sample of citizens of each European country. According to their website, the survey is a “large-scale, cross-national, and longitudinal survey research program on basic human values [that] provides insights into the ideas, beliefs, preferences, attitudes, values, and opinions of citizens all over Europe” (“About EVS.”). It is used to track changes in these values over time, as well as compare the results to countries across Europe. While the study is commissioned every ten years, the most recent data available is from

2008, as the results from 2017 are still being tabulated. Since its inception in 1981, the EVS has been cited in countless academic studies and papers—who use its venerable data as a backbone for advanced analysis. In terms of the thesis, however, this survey is being used as an easy case study, as the data illustrates the argument in practice. In essence, the EVS allows for effective quantitative analysis of cultural differences.

The case studies will also use data compiled by The Washington Post, the Guardian, and Germany's Federal Ministry of Finance, and The Tax Justice Network to discuss tax evasion and shadow economies in both Germany and Italy, highlighting how these issues effect each country differently.

A. Germany

Since the end of World War II, when a devastated Germany was forced to rebuild their country from scratch, they have been reforming and improving all aspects of their lifestyle and economy to become one of the most powerful and productive countries on the planet. As the fourth largest economy in the world and the largest in the European Union, Germany's low unemployment, budgetary surplus, and high productivity make it a model to follow (Silver). While this is clearly reflected in economic data, German citizens, through their life values and sense of duty, as well as accountability through taxation, are at the core of this success.

i) Perception of Life and Duty

Of particular interest are German perceptions on work. When asked if work should always come first, over 60% of Germans either agreed or strongly agreed and only a little over 18% disagreed or strongly disagreed. Similarly, when asked among a list of factors if having not too much pressure was important in a job, only 20% made mention of it—meaning 80% of Germans did not consider “too much pressure” in a job to be relevant to them. On the same list, 27.6% of Germans mentioned that good hours were important in a job, and only 12.3% mentioned that generous holidays were important to them. Here, it is clear that the common notion of German work ethic is backed up by the quantitative data (EVS 2010 [Germany]).

In addition to perceptions of work, the German consideration of the role of the state, politics, and private companies is telling of the values in German society. When asked whether it was the individuals responsibility or the state’s responsibility for providing for oneself or their people, respectively, with one being individual responsibility and ten being state responsibility, only 28.7% of respondents chose between a six and a ten, indicating a strong sense of individual responsibility guiding their lives. In addition to German’s have a strong sense of individual responsibility, they also consider a competitive job market to be beneficial to the country as a whole. On the same scale, with one as “Competition is good. It stimulates people to work hard and develop new ideas” and ten as “Competition is harmful. It brings out the worst in people,” a massive 86.4% of Germans indicated between one and five, with 55.6% of the total respondents answering between one and three. Here, it is clear the Germans consider themselves to be individually responsible and competitive with one another—two attributes that work hand-in-hand to make the country function more efficiently. Just how the Germans believe the state should stay out of the lives of the individual, they also believe the state should stay away business. When asked to rank on a scale from one to ten whether or not private ownership of companies should be increased or public ownership, with one indicating private and ten indicating public, 62.1% of Germans answered between one and five, indicating the value of private ownership for the majority of Germans. They are also split about their general opinion of government. When asked simply to rank the government on a scale from one "very bad" to ten "very good," 53.4% of Germans chose between one and five. While this represents a relatively even divide within Germany, this number is far lower than the results from other countries as will be explored later (EVS 2010 [Germany]).

These results are not just specific to this current generation of Germans, as the data shows that these values are being taught in the household in addition to reinforced at the workplace. When asked which qualities should be encouraged to children at home, 71.5% of German parents noted independence and 47.9% mentioned determination and perseverance. When prompted with unselfishness, only 5% of Germans said it was worth mentioning in the household, thus feeding into the power of the individual. Notably absent was religious faith, with only 8.5% of Germans noting it was worth being taught. Germans also encourage a disconnect between parents and their children, as only 21.5% agreed strongly that it was the child's duty to take care of the parent when he or she is sick (EVS 2010 [Germany]).

ii) Tax Evasion and Shadow Economy

According to the Tax Justice Network, in absolute terms, Germany is the 5th highest ranked country for tax evasion (Murphy 4). Tax evasion, or "the illegal non-payment of tax to the government of a jurisdiction to which it is owed by a person, company, trust or other organisation (sic) who would be a taxpayer in that place" is a major problem for the global economy (2). Germany, according to the TJN, is the fifth highest ranked country in the world for tax evasion, behind the United States, Brazil, Italy, Russia and right above France, Japan, and China (4). While this may not bode well for Germany, these terms are absolute, so analysis must be done by looking at the size of the shadow economy, which is the metric used by the TJN to denote tax evasion in relation to the size of their economy.

In 2011, the TJN estimated that Germany lost $214 billion to tax evasion, or as the TJN denotes it, “Tax lost as a result of Shadow economy” (4). In their analysis they used many other categories to study tax evasion, however for the purpose of this thesis, this category is most useful. As Europe’s largest economy by GDP, this only accounted for 6.5% of the total GDP of $3.3 trillion (9-16). Out of the entire European Union and Switzerland, this percentage was only higher than The Netherlands, the United Kingdom, Austria, Switzerland, the Check Republic, Ireland, Slovakia, and Switzerland—almost all of which are known internationally as tax havens, thus limiting the amount of money “lost” to tax evasion as a lot of money is not getting taxed in the first place (9-16). It is important to note that Germany is also considered by some to be a tax haven, however out of these countries, except for Austria, Germany has the highest tax rate, meaning it has the most to lose (Parietti).

In essence, this data shows that out of all the countries in the European Union, when accounting for other economic factors, Germany has one of the lowest effective rates of tax evasion in the bloc—thus showing that, while the country is attractive to foreign capital for its relatively lax tax laws, its citizens pay their dues in taxes more than other countries. For those citizens that do evade taxes, however, Germany levies fines and prison sentences, depending on how egregious the crime is.

As such, Germany’s Ministry of Finance keeps detailed records on all facets of tax evasion carried out in the country, such as the type of tax avoided, amount of taxes avoided in the aggregate, as well as fines and prison sentences imposed. The latest data available shows that, in 2017, the tax office brought a total of 62,261 cases of tax evasion for proceedings (Federal Ministry of Finance 2017). In sum, these cases accounted for an additional amount of 2.9 billion euros owed to the German Treasury department. As the department’s website proudly states at the top, these proceedings resulted in the additional payment of 168 million euros in penalties and resulted in a combined amount of prison time of 1,586 years (Federal Ministry of Finance).

iii) Economic Data

The last major piece of Germany worth highlighting for the analysis is the current state of its economy. This will be done though looking at the raw data about its economy. This data gives insight into not just how wealthy a country is, but how it compares to others, how its government spends money, and more broadly, how the country functions in the aggregate. In this brief section, GDP, GDP per capita, government spending on different industries, debt, and confidence indexes will be highlighted and discussed.

Germany is the world's 4th largest economy by GDP, and the largest in Europe. An economic powerhouse, Germany has been often credited with holding up the European economy during the Eurocrisis in 2009. Its ability to undertake this task is a result of the robustness of its economy. As of 2018, Germany's GDP in nominal USD was $3.95 trillion, and its GDP per capita was $47,662, one of the highest amounts in the world ("Country Comparison: Italy vs German 2019"). This is about 33% higher than the average for the region ("Eurostat Data: Germany in Comparison") As for debt, Germany holds about $2.4 trillion in national debt, making it around 60% of its GDP—within the limits imposed by the Maastricht treaty. It's debt per capita is $29,433 ("Country Comparison: Italy vs German 2019").

From a budgetary standpoint, Germany is one of the few economies in the world that runs a budgetary surplus—meaning they bring in more money than they spend. Germany runs a $68.5 billion annual surplus, 1.7% of its GDP. This, however, is not a result of a lack of spending. Rather, Germany is reaping the benefits of an economy geared toward self-investment. Germany spends

$1.75 trillion a year, 11% of which went to education, 21% to healthcare, and the rest of it to defense and other investment. Germany is also attractive to outside investors, with its low taxes for foreign capital and a triple A rating from Moody's, S&P, and Fitch, thus denoting it as a safe investment as well. Backing this up is it ranking on the Fragile States index, where it is rated as the 167th least fragile country in the world, and one of the most stable in the EU. It ranks 11th in the world for least amount of corruption, putting it ahead of most developed countries, third on the Global Competitiveness Index, which is a way of measuring prosperity, 9th in terms of innovation, and the 2nd highest in the EU for human capital in 2017 ("Country Comparison: Italy vs German 2019").

Germany also enjoys a successful and robust labor market. The unemployment rate, as of September 2019, was 3.1%. Its workers rank 6th highest in the world for human capital and are well compensated for it. The average wage in Germany was $59,695 in 2018, the 4th highest in the European Union and the 8th highest in the world. In terms of industry, Germany exports 39.5% of its GDP and imports 32.5%, showing a positive trade balance in the country. This positive balance ranks 4th out of all the countries in the EU, and it one of the highest of developed countries in the world ("Country Comparison: Italy vs German 2019").

B. Italy

While it is lauded for its seemingly relaxed lifestyle, exquisite food, and some of the best wine in the world, Italy, too, is a culturally rich country and an economic powerhouse. Italy is the eighth largest economy in the world by nominal GDP, and the fourth largest in Europe, behind Germany, the United Kingdom, and France (Silver). Though Germany and Italy's economies are similarly large, they differ in key economic and cultural indicators.

i) Lifestyle and Sense of Duty

Due to the stringent working laws of the EU, German and Italian citizens enjoy many of the same protections for work. Italians, however, have different perceptions of labor and the role it should play in their lives. When asked if work should come first, only 45.8% of Italians either agreed or strongly agreed with the statement. At the workplace, when asked about what was important in a job, Italians were split on the issue of pressure, with 52.2% mentioning that not too much pressure was important and 47.8% omitting it. Similarly, when asked if good hours were important, 53.8% of Italians mentioned it and 46.2% did not. When asked about if generous holidays were important, 22.5% of Italian made mention of it (EVS 2010 [Italy]).

When asked about the role of the state, however, Italians were more decided about its role in various aspects. When asked to rank on a scale from one to ten whether or not it was the state's responsibility to provide or the individual, with one corresponding to entirely the individual and ten the state, 51.7% of Italians answered between six and ten, indicating that it was more the state's responsibility to provide than the individual. However, 69.4% of Italians answered between five and ten, indicating that the state had a major role, if not majority role, in providing for the individual. On a similar scale, when asked to rank if competition was good or bad for society, with one corresponding to good and ten harmful, 69.8% of Italians indicated between one and five, showing that the vast majority of Italians, though mostly divided about the role of work, agree that competition is more helpful than it is harmful for society. Italians are also untrusting of their government, as on the same scale, when asked if private ownership of industry or public ownership should be increased or decreased, with one indicating private ownership and ten public, 68.1% chose between one and five. When asked simply to rank the government on a scale from one "very bad" to ten "very good," 77.2% of Italians chose between one and five. This data shows that while

Italians feel the state should provide for the individual, they are still untrusting of its role in the economy, and its general standing (EVS 2010 [Italy]).

The most interesting section concerns what Italians teach their children, as the values instilled in the household have wide reaching impacts for the future of the labor market in the country. When asked what values they teach in the household, only 40.4% of Italians mentioned independence was important to teach, and a fewer 33.9% mentioned determination and perseverance were important to instill. Italians, however, thought empathy was important to teach, as 40.8% of Italian parents explicitly mentioned unselfishness in the household. This carried over to the parents, as 43.9% of Italians strongly agree that it is the child's responsibility to take care of the parent when they are sick. Religious values, understandably, were given high regard in the household, as 36% of Italians specifically mentioned that religious faith was important to teach in the household (EVS 2010 [Italy]).

ii) Tax Evasion

Unlike Germany and the rest of western Europe, tax evasion in Italy is a widespread, pervasive problem that starves the already struggling state of the funds it requires. In fact, Italy has the 2nd highest amount of tax evasion in the European Union, with tax evasion accounting for 11.63% of its massive $2 trillion GDP. It is only behind lost to Bulgaria, where its estimated at 11.75% of its GDP is lost to tax evasion (Murphy 9-16). This amount of evasion is far higher than the average amount of evasion of 7.98% in the EU (and Switzerland). Some estimate that the amount of taxes lost is actually higher, representing around 16.5% of their GDP (Plumer 2011). In fact, if all of Italy's money lost to tax evasion was recouped, they could pay for their world class healthcare system one and a half times over and pay back their debt in under eight years (Murphy 9-16; Plumer).

There are many potential causes to Italy's runaway tax problem. Former Prime Minister Silvio Berlusconi, who himself was convicted of tax fraud, argued that higher taxes lead to higher evasion. (Plumer). In fact, some research has shown that this creates a vicious cycle, where lost revenue from taxes leads to a higher tax rate, which encourages more evasion—thus perpetuating the cycle ad nauseum (Plumer). Others, such as economist Tito Boeri, note that Italy's tax structure is set up for easy tax evasion. For example, Italy has some of the lowest tax rates on difficult-to-hide assets, such as property, and higher ones on taxes that are easier to hide, like income. It is estimated that only 2% of Italy's revenue comes from difficult-to-hide assets, comparted between 10% to 20% in other wealthier countries (Plumer). Many have also attributed the problem to Italy's underground economy that is estimated to account for up to 22% of its GDP (Zarroli 2011). Many Italians, due to the high amount of unemployment and other factors, pick up odd jobs for supplemental income, accepting cash for payment and neglecting to declare it on their yearly taxes (Zarroli).

Others, however, say Italy's tax woes go far beyond structure, and are actually a result of Italy's culture. Carlo Fiorio, a professor of public finance at the University of Milan, notes that "'[While] people are not proud of evading taxes…[Italians] don't feel as morally obligated to pay taxes as probably other citizens in other countries'" (Zarroli). This problem begins at the individual level. For example, less than one percent of the population, according to tax returns, earns more than $135,000 per year, however, sales of luxury items such as high-end cars and yachts are increasing (Plumer; Zarroli). Clearly, Italians are not honest in their tax returns. The problem continues at the small business level too, where shopkeepers, plumbers, and even dentists will give discounts if the buyer pays in cash. While these issues persist in other countries, the sheer volume at which these illicit transactions occur in Italy places it far above most other countries. Finally, Italy’s culture of tax evasion continues at the corporate level, where Fiorio estimates that over 50% of Italian corporations declare a zero or net negative income (Zarroli).

iii) Economic Data

Italy’s economy, by GDP, is ranked as the eighth largest in the world, and the fourth largest in the EU, behind France, the UK, and Germany (Parietti 2019). Though Italy ranks high, many economists think that Italy’s economy should actually be ranked higher, due vast amount of transactions and business that exists in the shadow economy. While this includes tax evasion, the reach and power of the mafia too cannot be overstated, as in certain areas in Italy, especially in the south, the mafia takes the role of a local government In this section, just like it was done with Germany, raw data about Italy’s economy will be highlighted. In this section, GDP, GDP per capita, government spending on different industries, debt, and confidence indexes will be highlighted and discussed.

Italy, like many other European countries, has a large and diverse economy. Italy’s biggest industries are engineering and metallurgical, which help make up for its lack of raw materials and energy production (Signoretta and Lovett 2019). In 2018, Italy’s nominal GDP was $2.07 trillion, a little over half that of Germany, and its GDP per capita was $34,321, over $13,000 short of Germany’s. Though there is a lot of money moving through Italy’s economy, it also owes a great deal. In fact, Italy owes over $2.7 trillion, representing over 130% of its GDP—a rate that exploded after the Eurocrisis when Italy was forced to take out loans from the ECB. Spread out, the debt per capita is $45,432. Unlike Germany’s budgetary surplus, Italy ran a deficit of 2.1% in 2018, close to the ECB target of 2%. In fact, this number is a vast improvement from the recent years past, as Italy has been steadily reducing it from a peak of 5.2% in 2009. Like tax evasion, Italy also likes to spend. Expenditure accounts for 48.6% of Italy's GDP, higher than Germany by around 5 points, spending 7% on education and over 13% on healthcare ("Country Comparison: Italy vs Germany 2019").

Many of Italy's economic woes come from its labor market. As of September 2019, Italy had a 9.8% unemployment rate, over two points higher than the average of the Eurozone. Despite this, Italy enjoys a high average wage of $36,956, and a middle-of-the pack human capital rating of 19th in the EU and Switzerland as of 2017. On the trade side, Italy exports 26.35% of its GDP and imports 24.13%, representing a trade surplus of 2.21%-- the 8th highest in the EU ("Country Comparison: Italy vs Germany 2019").

Despite their moves to reduce their deficit, and the recent growth of the economy, Italy is still not considered as safe of an investment as other places in Europe. Italy has a Baa3 rating from Moody's, and BBB rating from both Fitch and the S&P, thus denoting it a "lower medium grade" investment and, according to Moody's, "subject to moderate credit risk" and are the lowest rank of an institution that is still worth investing ("Country Comparison: Italy vs Germany 2019"; Moody's Corporation). For context, this rating is one of the worse in the EU—only beating out Greece, Cyprus, and Croatia, and tying with Portugal, Romania, and Hungary. Thus, Italy is tied for the fourth worst place to invest money in the EU and Switzerland. While there are many factors that drive this, such as Italy's economic issues, there is also rampant corruption in the country. Italy ranks at the 53rd least corrupt country in the world by the World Corruption Index, placing it behind Namibia and Rwanda, which rank 52nd and 48th, respectively. It also ranks 143rd (out of 178) on the Fragile States Index, making it one of most fragile states in the entire European Union. Italy is in the bottom 50th percentile for innovation and competitiveness in the EU, ranking in at 31st in the world for both ("Country Comparison: Italy vs Germany 2019:).

VIII. Analysis

The following analysis section will be organized by the three major differences highlighted in the previous section: Perceptions of Life and Duty, Tax Evasion, and Economic Data. The goal of this section is to compare the data listed in the case studies, drawing from it the large differences between Germany and Italy. These differences will be highlighted and discussed in order to show how the countries are too divergent culturally and economically to have the same monetary policy. In order to better compare the data, I have reduced the raw data to the mean as laid out in the Case Studies section. It is worth remembering here that connection between monetary and fiscal policy in the Eurozone. Though many of the following suggestions I make based on the cultural differences would be a change in fiscal policy, for Italy, these two are intrinsically tied due to the EMU fiscal requirements. A sovereign monetary policy translates to a fully independent fiscal policy—thus, for Italy, this is why the Eurozone it is worth leaving.

A. Perceptions of Life and Duty

The first way I will compare Germany and Italy's cultural differences is through their differing responses to questions on the EVS. The first batch of questions asked each respondent about their values and perceptions surrounding work.

Question and Response		German Mean	Italian Mean
Agree/ Strongly Agree: Work should come first		60%	45.8%
Mention: Not too much stress of job is important		20.3%	52.2%
Mention: Good hours important on job		27.6%	53.8%
Mention: Generous holidays important on job		12.3%	22.5%
Rank: Is competition good or harmful?	1 (Good) through 5	86.4%	69.8%
	6 through 10 (Harmful)	13.6%	30.2%

Table 1: German and Italian Work Values. Response data from the EVS was averaged and compiled for the purpose of comparison. (EVS 2010 [Italy]; EVS 2010 [Germany]).

With this first batch of questions, the cultural differences between Germany and Italy around work begin to become clear. According to Table 1, Almost 15% more Germans agree or strongly agree that work, when compared to other aspects of their lives, should come first—thus showing the power and depth of their work ethic. Supporting this, when asked from a list of qualities whether or not each was important on the job, the German responses showed that the workers are willing to work often and under any condition. When asked if not too much stress on the job is important, almost triple the proportion of Italians explicitly mentioned this over the Germans. Additionally, almost double the proportion of Italians mentioned that both good hours and generous holidays were important to them. Here the German work culture is quantified. Due to this culture of holding work in high regard, it would be in the best interest of a hypothetical German monetary policy to prioritize minimizing inflation, keeping the fruits of their labor stable. Due to the lower level of importance Italian place on work, a separate monetary policy (and thus, a truly independent fiscal policy since they have to get their budget approved by the ECB), would allow the Italians to manipulate their economy in areas they see fit, such as financing more paid time off, longer maternity leave, and progressive ideas like universal basic income (Table 1).

Question	Ranking	German Mean	Italian Mean
Who has responsibility for providing: Individual or State?	1 (Individual) through 5	71.3%	48.3%
	6 through 10 (State)	28.7%	51.7%
Should private ownership be increased or public ownership?	1 (Private) through 5	62.1%	68.1%
	6 through 10 (Public)	37.9%	31.9%
Is the government good or bad?	1 (Good) through 5	53.4%	77.2%
	6 through 10 (Bad)	46.6%	22.8%

Table 2: German and Italian Perceptions of State. Response data from the EVS was averaged and compiled for the purpose of comparison. (EVS 2010 [Italy]; EVS 2010 [Germany]).

The second batch of questions asked the respondents their consideration of the role and status of their state. As opposed to the Table 1, these questions asked the respondent to rank on a scale from one to ten their feelings about the given topic. With these batches of questions, the vastly different perceptions of the state become apparent. Almost twice the proportion of Italians considered the state to be more responsible for providing than the individual. This is one of the strongest differences between the two countries. If twice the proportion of Italians give responsibility to the state for providing, then the state must be organized around this. Separate from the EMU, the Italian state may want to further support welfare, healthcare, investment, and, as mentioned before, universal basic income. The rest of the questions further support the Italian perception of the role of the state, as more Italians think public ownership should be increased over the Germans, and about 24% more Italians consider the state to be mostly good over the Germans. Considering both data sets, a pattern begins to emerge: The Germans are, relative to Italy, a hardworking, individualistic people with little regard for the role of the state or its responsibility. Italians, on the other hand, take a more relaxed approach to work, placing less importance on it and more on the role and importance of the state. With a separate fiscal policy, Italy could better institutionalize these values (Table 2).

Questions and Response	German Mean	Italian Mean
Mention: Important to teach at home: Independence	71.5%	40.4%
Mention: Important to teach at home: Determination/ Perseverance	47.9%	33.9%
Mention: Important to teach at home: Unselfishness	5%	40.8%
Mention: Important to teach at home: Religious Faith	8.5%	36%
Agree or Strongly Agree: Child responsibility to take care of sick parent	21.5%	43.9%

Table 3: German and Italian Home Values. Response data from the EVS was averaged and compiled for the purpose of comparison. (EVS 2010 [Italy]; EVS 2010 [Germany]).

The last mode of cultural comparison between the Germans and the Italians concerns one of the most fundamental parts of an individual's life: their childhood. It is here where the differences between German and Italian culture become the most established. Additionally, the data here is the most valuable out of the survey results, as much of the way a child is raised effect both their values and how they act in the workplace. Almost double the proportional amount of Germans reported that they saw independence as important to teach in the household than Italians. This data is also seen in the response to the role of the individual, where 23% more Germans saw the individual as primarily responsible for providing over the state. German's also saw the importance of teaching determination and perseverance in the household, with 14% more German's emphasizing it over Italians. The biggest difference, however, concerns mentioning unselfishness in the household, with nine times the proportion of Italians teaching it over the Germans. The connection between these three responses and the German perception of work and the individual is clear: German parents, compared to their Italian counterparts, condition their children to be independent, determined, and individualistic workers once they grow up. They prioritize work more than the Italians, are more willing to work longer hours, take less vacation time, and are more willing to work in a stressful environment (Table 3).

Italians, on the other hand, condition their children to be more collectivist—placing a greater emphasis on unselfishness, religious faith, and taking care of their parents when they are ill. As stated, nine times the proportion of Italians mention unselfishness in the household, 14% less mention perseverance, 27.5% more emphasize religious faith, and twice the amount of Italians think that children should take care of a sick parent than the Germans. These Italian values of too translates into the workforce and adult life, as Italians see themselves more as members of a society than independent workers. For the majority of Italians, the state should provide more for the individual, as well have an increased presence in controlling and running industry (Table 3).

B. Tax Evasion

While it may seem like a relatively small metric to compare countries by, tax evasion, and larger, the size of a shadow economy is greatly telling about a given countries economy, as well as how its citizens consider the government. Studying the money lost through tax evasion paints a more accurate picture of the economy of a country, as often tax evasion is carried out by crime organizations and criminals, as well as large corporations and the individual taxpayer. The TJN estimates that globally, $1 out of every $6 in the world is not subject to tax—a ratio that jumps to one out of five euros in Europe and to less than one out of four euros in Italy and Greece (Murphy 6). It is worth noting that Europe, as a region, also has the highest average tax rate in the world—39% of GDP (Chalabi 2013). Hence, the citizens of Europe have the most to gain, in absolute financial terms, by illegally avoiding taxation (Chalabi). By looking at rates of tax evasion, especially when compared to a country's GDP, one can gain insight into how much crime is in an economy, as well as how citizens feel toward their government

When adjusted for GDP, Germany has one of the lowest amounts of tax evasion out of the entire EU, losing a mere 6.49% of their GDP to the shadow economy. As stated earlier, the only other countries that have a lower rating are tax havens, as there is not a lot of taxation to avoid in these countries. Italy, on the other hand, evades 11.63% of their GDP in taxes, almost double the proportion of Germans. This is the second highest rate in the EU, only behind Bulgaria's 11.75% of GDP. Interestingly, this data clashes with the survey results from earlier. Even though Italians want the state to have a more active role in their lives, and are primarily responsible for providing, they are significantly less willing to contribute to it than the Germans, who are decidedly more individualistic. Clearly, Italy has a culture of tax evasion, contributing to their recent economic stagnation and hindering their recovery (Murphy 9-16).

It is important to see the connection between tax evasion and perceptions of the state. Despite relying on the state to provide, as stated earlier, more Italians consider the state primarily bad then good, an amount higher than the German response. The connection between culture and tax evasion has been studied by many, however work from the *Journal of International Accounting, Auditing and Taxation* empirically connects the two, as “culture… contributes to a better understanding of tax evasion internationally” (Richardson 68). Grant Richardson, of the Journal, writes:

> “Based on data from 47 countries, and after controlling for economic development, the regression results indicate that the higher the level of uncertainty avoidance and the lower the level of individualism, legal enforcement, trust in government, and religiosity, the high is the level of tax evasion across countries” (67)

According to the EVS survey results, with the notable exception of religiosity (though it is hard not to emphasize religion in a country where the Vatican is situated), Italy falls into these categories. They have a lower level of individualism and trust government when compared to Germany. Italy’s lack of legal mechanisms also are not there, evidenced by Italy’s corruption index, which published yearly by Transparency International, measures publicly understood levels of corruption (“Country Comparison: Italy vs Germany 2019”) . On this index, where lower is less corrupt and higher is more corrupt, Italy scores 52 and Germany scores 80. Additionally, according to Hofstede Insights, Italy scores higher than Germany on uncertainty avoidance, understood as a sociological term that shows how a society deals with an unknown future (“Country Comparison”). This has led some to question how these where these values came from (“Country Comparison: Italy vs Germany 2019”).

Beginning in the late nineteenth century, following Italian unification, the new Italian stated posed a threat to both the physical land the Vatican controlled and the spiritual level. Josef Hein writes “the Vatican did all it could harm the legitimacy of the Italian state… and its right to tax” (Hein 1). Following the Napoleonic era, the Vatican faced shrinking influence due to the flourishing of liberal ideas brought in by Napoleon and his successors. Following the new constitution and unification, the Vatican also began to lose land, eventually constricting it to just within its walls in Vatican City. Facing this loss of cultural and physical influence, the church embarked on a path of propaganda: first framing the new Italian state as illegitimate and the Pope as a prisoner of the state. Given the states cultural influence, “no ordinary Italians would give the state their loyalty, unless they wanted to risk excommunication” (14). Thus, the negative Italian perception of state, crucial to their culture of tax evasion, began in part from a propaganda campaign by the Catholic Church. Though this practice has more or less subsided, its influence remains true to this day (1-27).

C. Economic Data

The large economic differences between the two countries, when combined with the cultural differences, prove the two countries are incompatible with a shared monetary policy. To begin, it is important to note that both Germany and Italy are high performing countries, with GDP’s of $3.95 trillion and $2.07 trillion, respectively. These numbers place the two countries within the top ten largest economies in the world. However, upon deeper inspection the differences begin to emerge.

First, Germany runs a budgetary surplus of 1.7% of its GDP, while Italy runs a deficit of 2.1%. While Italy’s runaway tax evasion exacerbates this, Italy spends a higher portion of its GDP than Germany, while still spending a smaller proportion on both education and healthcare—showing how much Italy's GDP goes to other expenses, such as welfare and debt repayment. Worsening this is the lack of tax contributions to Italy's government, as 9.8% of its workers are unemployed, compared to 3.1% in Germany. It's average wage is also much lower, with Italians earning $36,956 to the German $59,695. Germany is also at an advantageous position on trade, as it exports 7% more than it imports, while Italy exports about 2% more than it imports.

Much of Italy's economic inferiority is also reflected in how it performs on various indices. Italy performs poorly on human capital compared to the rest of the EU, scoring 19th compared to Germany's 6th—thus showing the different educational and training levels in its workforce. Because of this, as well as other factors, Italy also ranks poorly on the Global Competitiveness Index, which is a measurement of economic prosperity. Here, Italy ranks 31st, compared to Germany's 3rd. It also ranks 31st in innovation, whereas Germany ranks 9th. In addition to its economic faults, economists do not consider it a safe place to invest. While Germany ranks as the 167th least fragile economy in the world, Italy places a much lower 143rd. While Germany places as the 11th least corrupt, Italy places 53rd. Lastly, while Germany enjoys a Aaa rating from Moody's, Italy has a Baa3 rating, one step above sub-prime. Due to the vastly different statues of the two economies, if each country had a truly independent fiscal and monetary policy, they could manipulate the economy to their benefit as other, non-Eurozone countries do.

Though Germany is one of the most stable economies in the world, there are still a few things that they could do if they were separate from the Eurozone. It is worth noting that these reforms are all monetary policy, as Germany already has an effectively independent fiscal policy due to its compliance with the Eurozone regulations. Firstly, they would not have to be responsible when the other, poorer countries run into economic trouble or begin to default on their loans. Since their currency would no longer be connected to others, they would not have to intervene to protect it. Due to Germany's solid economic standing, they could pursue risker monetary policy—either enacting high interest rates to reduce inflation and maintain price stability or negative interest rates to spur spending. High interest rates would particularly benefit Germans due to their saving culture. Rates at that level would raise interest rates of deposit bank accounts, where Germans keep much of their money. They would also slow down and prolong economic growth by increasing the cost of borrowing and the value of the currency. If economic growth were to slow, however, the Germans would be in a better position to cut interest rates and not worry how it would affect other countries.

Italy, on the other hand, could grow its economy and workforce with both monetary policy and a truly independent fiscal policy. To grow, Italy could adopt negative interest rates to spur spending and raise them if inflation were to grow too much. It could also cheapen its currency to make its exports more attractive as well as spur outside investment in the country.. Combined with low interest rates, Italy could raise its deficit, growing the economy through fiscal stimulus like the United States did in the Great Depression and the 2007-08 financial crisis. This stimulus could go toward job programs, growing the economy with deficit spending. This could go a long way toward improving the Italian perception of state, which is a major contributing factor toward tax evasion in the country. Thus, an independent monetary and fiscal policy would improve the economic situation in Italy by untying the hands of the state—allowing them to pursue the strong economic standing they had before joining the Eurozone.

IX. Conclusion

While European monetary integration through the Eurozone has continued the EU goals of a more unified Europe, doing so has come at a cost. The concept of a non-sovereign monetary policy is inherently flawed—as, in times of crisis, it greatly limits the ability of governments to act independently and resolve it. A monetary union also traps poorer countries in a vicious cycle of debt, as countries have to continually borrow from the central bank to pay back loans. This review was followed by my contribution to the existing scholarship, where I used the case studies of Germany and Italy to show how the countries are too culturally and economically divergent to be on the same monetary policy. Generally, I showed how the individualist German culture clashed with the collectivist Italian culture, and how the economies are too different to use the same currency. It is for these reasons that I call for Italy, Germany, and effectively the entire Eurozone to leave behind the Euro and the united monetary policy of the EMU and move toward their own sovereign currency. This will allow each country to rebuild their economies around their values and without the influence of another body.

While the ease of travel around the Eurozone with a single currency cannot be overstated, the transition now would be significantly easier than in the years past. The vast majority of payments made in the Eurozone are already done electronically, reducing the need for a physical currency exchange when travelling. According to the ECB, card payments, credit transfers, and direct debits accounted for 92% of all transactions made in the Eurozone ("Payment Statistics: 2018"). Thus, when travelling, citizens will only have to be aware of the exchange rate between the currencies—something most travelers around the world are already aware of and a problem that is also greatly alleviated by the widespread access to the internet common across the developed world. Additionally, the various industries and resources in each country, combined with the customs union, will continue to provide trade cooperation between the member countries and reduce the likelihood of a trade war. While the differing currencies will inhibit some trade due to the added cost of exchanging currency, the already integrated statues of the EU will ensure that goods will continue to move from country to country uninhibited.

The EU is a strong and effective bloc, with its customs union, free movement of goods and people serving as the backbone to a prosperous entity. It is time, however, for them to leave the Euro behind, and allow each country to develop to its full potential. The EU, through the Eurozone, has effectively become too integrated—willing to paper over vast cultural differences in the pursuit of united monetary policy. I have proven that this is not viable, and has not been working. Much of the discontent with this EU policy has manifested in the voters, who have turned out in troves to elect anti-EU parties in Italy, Greece, Spain, and other countries. Thus, in order to avoid these countries pulling out of the EU and fracturing the Union, the Eurozone must be dissolved. Though the transition will be hard and complicated, the alternative is catastrophic. Only this would ensure the longevity of the bloc, as the current economic stagnation and political impasse will continue grow the tides of Eurosceptism to the breaking point.

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