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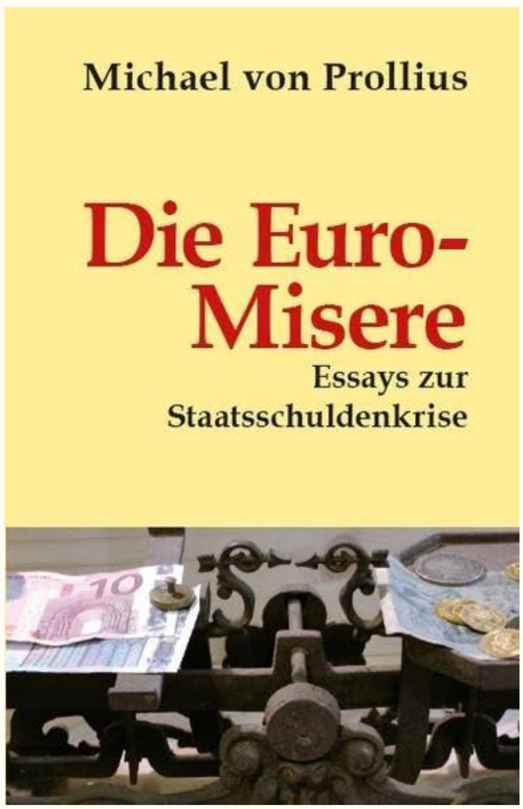
The Euro Misery

Essays on the Sovereign Debt Crisis and the Austrian School's Monetary Analysis



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One-Sentence Summary

This collection of essays presents an Austrian School analysis of the European sovereign debt crisis, arguing that central banking systems inevitably create economic instability and that only a return to free market money can restore sustainable prosperity and prevent the recurring boom-bust cycles that characterize state-controlled monetary systems.

About This Book

Publication Details:

- **Author:** Michael von Prollius
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Genesis and Methodology:

"The Euro Misery" is a collection of essays and articles written between 2007 and 2011 - during the unfolding financial and Euro crisis. The book explicitly presents itself as a compilation of previously published texts from various (classical) liberal and ordoliberal publications such as "Forum Ordnungspolitik," "Die Freie Welt," "eigentümlich frei," and the Swiss "Liberal Institute." Following von Prollius's previous works on market economy erosion and monetary system damage, this volume offers a more essayistic approach while maintaining rigorous theoretical foundations rooted in Austrian School economics.

The author acknowledges that "some redundancies in a revised and systematized article collection are inevitable," but considers them necessary "to make clear and anchor the fundamental connections." Theoretically, the work is entirely based on the Austrian School of Economics, particularly on the works of Ludwig von Mises, Friedrich August von Hayek, and Murray N. Rothbard. Von Prollius sees applies their ideas to contemporary monetary and economic policy problems.

Author's Note:

After analyzing the erosion of the market economy and the damage caused by bureaucratic money production in two previous books, an essayistic volume with scientifically grounded contributions seemed helpful. Holger Thuss strongly supported the project and published the texts. However, the readership remained largely limited to insiders, as is often the case with economic topics. The volume nevertheless reflects lived experience during a crisis period and documents contributions that were also read on my then online presence "Forum Ordnungspolitik," the orange pages.

Book Abstract No.8

The Euro Misery.

Essays on the Sovereign Debt Crisis and the Austrian School's Monetary Analysis

Introduction

"Die Euro-Misere" represents a comprehensive application of Austrian School monetary theory to the European sovereign debt crisis of 2010-2011. Von Prollius argues that what mainstream economists diagnosed as a fiscal crisis was fundamentally a monetary crisis rooted in the inherent instabilities of fiat money systems controlled by central banks.

The work builds upon the theoretical foundations laid by Ludwig von Mises, Friedrich Hayek, and Murray Rothbard, applying their insights to contemporary European monetary arrangements. Von Prollius's central thesis is that the Euro crisis merely exposed the systemic contradictions of state-controlled money production that inevitably lead to boom-bust cycles, sovereign debt crises, and ultimately currency collapse.

Unlike conventional analyses that focus on fiscal imbalances or regulatory failures, this work identifies the fundamental problem in the very nature of central banking systems that enable unlimited credit expansion detached from real savings, creating artificial investment booms that must eventually collapse in deflationary busts.

I. Theoretical Foundations: Austrian School Monetary Theory

Monetary Reform – Sound Money

Von Prollius begins with fundamental Austrian School principles about the nature of money and its role in economic coordination. Drawing on Carl Menger's analysis of money's spontaneous emergence from market processes, he argues that legitimate money must evolve from market demand rather than government decree. Thus, a reform of the monetary system is necessary.

II. The Five Main Parts: Analysis of Core Arguments

Part I: Foundations of Monetary and Economic Theory

The first part develops the theoretical foundations of Prollius's argument. Central is the "great savings confusion": the author sharply criticizes the linguistic confusion when governments speak of "savings programs" while merely reducing their new borrowing. "Saving means not spending what you have," he defines precisely. True government saving would mean spending cuts while simultaneously reducing debt.

Of particular importance is the distinction between "commodity credit" and "circulation credit" according to Mises. The former is based on actual savings - unconsumed production saved for later consumption. The latter arises through money creation from nothing and inevitably leads to economic crises. The famous Robinson Crusoe example illustrates: genuine investments (the net for fishing) require prior consumption sacrifice (saved fish).

Another cornerstone is the redefinition of inflation: price increases are not inflation, but rather the preceding expansion of the money supply. "Central banks are state inflation agencies," reads the provocative thesis. The ECB is exposed as an inflation agency despite its supposedly better reputation, whose policy leads to massive distortions of the price system. Correspondingly deflation is seen as a natural reaction and has disastrous consequences only when caused by the state.

Part II: Critique of Prevailing Economic Policy

Here von Prollius turns to concrete economic policy measures during the crisis. The Opel "rescue" serves as a prime example of state interventionist misjudgments: instead of allowing market-based restructuring, unprofitable structures are artificially kept alive with taxpayer money. This prevents the necessary reallocation of capital and labor to more productive uses.

The author particularly sharply criticizes the "march into the authoritarian economic state." Finance Minister Steinbrück's threats against banks that didn't want to grant enough loans are interpreted as symptoms of a fundamental shift away from market economy principles toward dirigiste interventions.

The analysis of the Greek crisis becomes the crystallization point of his Europe and Euro criticism. Greece stands "exemplarily for the fate that befalls social or welfare states: over-indebtedness and ending with riots." He presents detailed figures on Germany's "paymaster role": Germany transferred a net 146 billion euros to the EU from 1991 to 2008, with the PIGS states alone receiving 287 billion euros in net benefits.

Part III: The Causes of the Financial and Global Economic Crisis

This part forms the analytical heart of the book. Von Prollius develops a systematic critique of prevailing crisis narratives. Instead of "market failure," he diagnoses comprehensive "state failure." The financial crisis was an "inflation crisis" - caused by decades of cheap money policy.

Particularly revealing is the deconstruction of the "myth of unregulated financial markets." The author demonstrates that the banking sector is the most heavily regulated worldwide after the insurance industry, with 85,000 regulations and laws in the US alone. The problem was not too little, but wrong regulation.

The analysis of the "houses-for-everyone" policy in the US shows how state interventions systematically created wrong incentives. Fannie Mae and Freddie Mac, the state mortgage financiers, controlled half of the entire mortgage market by 2008 and deliberately took risks for which taxpayers ultimately had to pay.

The core argument reads: "Playing with other people's money" - a system of perverted incentives where profits are privatized but losses socialized. The central banking system enables this perversion through its monopoly over money production.

Part IV: Historical Lessons and Parallels

Von Prollius uses historical analyses to support his theoretical arguments. The monetary policy controversy around 1825 in Britain serves as an early example of the problems of partially backed monetary systems. The "Currency School" versus "Banking School" debate of that time reflects the fundamental questions still relevant today.

Particularly important is the revaluation of the 1930s "New Deal." Contrary to textbook opinion, Roosevelt's interventionist policy did not end the depression but prolonged it. US Treasury Secretary Morgenthau admitted in 1939: "I say after 8 years of this administration, we have just as much unemployment as when we started... and tremendous debt besides."

The parallels to the current crisis are unmistakable: massive government spending, regulatory surges, and interventions in price formation prevented market self-healing then as now and prolonged the crisis.

Regarding the Euro, von Prollius diagnoses fundamental failure. "The Euro has failed," he states as early as 2010 and predicts: "The Eurozone will – as it is – not survive." The construction flaws of the monetary union were foreseeable from the beginning and have now come to light.

Part V: Reform - The Path to a New Monetary Order

The reform part develops concrete alternatives to the existing system. Central is the concept of "Free Banking" – a privatized monetary system without a state central bank. "Good money comes from the market!" reads the basic thesis.

The Free Banking system would rest on several pillars:

- **Competitive money production**: Private banks issue their own currencies
- **Free currency choice**: Citizens decide themselves which money they accept
- **Full backing or market-determined fractional backing**: No state minimum reserve requirements
- **Liability instead of bailout**: Failed banks go bankrupt, are not rescued

Historical examples such as Scottish Free Banking around 1800 or the Canadian system of the 19th century proved the superiority of free monetary systems. These were more stable, efficient, and just than today's central bank systems.

The transition could occur gradually: first gold backing of bank liabilities, then complete privatization of the monetary system. The result would probably be a return to precious metal-backed currencies, as these have historically proven to be the "best money."

III. Central Arguments and Theses Overview

Monetary and Credit Theory

- **Inflation** is money supply expansion, not price increases
- **Central banks** are inflation agencies that systematically cause crises
- **The minimum reserve system** resembles a "pyramid scheme" or fraud
- **Investment without saving** is impossible and inevitably leads to crises

Crisis Analysis

- The financial crisis was an **inflation crisis**, not market failure
- **Over-regulation**, not deregulation caused instability
- **State interventions** worsen crises instead of solving them
- **"Rescue packages"** are redistribution from taxpayers to banks

Euro Criticism

- The Euro is a **political**, not economic project
- **Construction flaws** were foreseeable from the beginning
- **Transfer instead of stability community** was the real goal
- **Germany as "paymaster"** bears disproportionate burdens

Reform Proposals

- **Free Banking** as alternative to central banks

- **Privatization of money production** through competition
- **Return to gold-backed currencies** for stability
- **Abolition of state privileges** for financial institutions

IV. Methodological Strengths and Weaknesses

Strengths

- **Theoretical consistency**: The argument consistently follows Austrian School principles

- **Empirical foundation**: Numerous historical examples and statistical evidence
- **Analytical sharpness**: Clear identification of cause-and-effect relationships
- **Predictive power**: Many predictions made in 2010/11 proved accurate

Weaknesses

- **Redundancy**: Core arguments are excessively repeated
- **Polemical tone**: Factual analysis mixes with ideological criticism
- **One-sidedness**: Alternative explanatory approaches are hardly discussed
- **Practicability**: The implementability of reform proposals remains unclear

V. Assessment and Classification

"The Euro Misery" is an ambivalent work characterized by both analytical integrity and ideological narrowing. Von Prollius succeeds in highlighting the weaknesses of the prevailing monetary and financial system with great clarity. His analysis of the genesis of the financial crisis, the role of state interventions, and the construction flaws of the Eurozone are largely convincing and have partly proven prophetic.

Particularly valuable are the historical classifications and detailed criticism of prevailing economic policy narratives. The deconstruction of the "New Deal" myth or the analysis of supposedly "unregulated" financial markets offer important corrections to mainstream understanding of crises.

However, the dogmatic narrowing to the Austrian School will be considered problematic. Alternative explanatory approaches are not seriously discussed but summarily dismissed as "interventionist" or "socialist." The reform proposals, however theoretically appealing they may be, remain largely utopian. How the transition to a Free Banking system could be practically accomplished without causing massive disruptions remains unanswered.

Furthermore, the author tends toward black-and-white painting that doesn't do justice to the complexity of modern economies. Equating every state intervention with "socialism" or claiming that markets could solve all problems if only left alone falls short.

Nevertheless, the book remains an important contribution to the monetary and economic policy debate. Especially at a time when the limits of interventionism are becoming increasingly apparent, von Prollius's radical alternative offers important food for thought. His warning about the long-term consequences of monetary policy and his criticism of Euro construction have proven largely accurate.

"The Euro Misery" is thus less a balanced textbook than a passionate plea for fundamental reform of the monetary and financial system. As such, it deserves attention - not as infallible truth, but as an important counterpoint to the prevailing consensus and as a starting point for an overdue fundamental discussion about the future of our monetary system.

The book's strength lies in its uncompromising analysis of systemic problems and its courage to think fundamental alternatives. Its weakness lies in ideological rigidity and the lack of practical implementation concepts. For readers seeking to understand Austrian School perspectives on contemporary monetary problems, it offers valuable insights. For those looking for balanced policy recommendations, it may prove too one-sided.

Ultimately, "The Euro Misery" serves as an important reminder that our current monetary system is neither natural nor inevitable, but rather a political construction that can and should be questioned. Whether von Prollius's specific alternatives are viable remains debatable, but his fundamental critique of central banking and fiat money systems deserves serious consideration in any comprehensive monetary reform discussion.

About This Abstract Series

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About the Author

Michael von Prollius is a German historian, economist, and author specializing in the intersection of ideas, institutions, and historical development. He holds degrees in history and economics and has conducted extensive research spanning ancient history, economic thought, political philosophy, and contemporary policy analysis.

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