

455: CONTINENTAL BREAKUP TRANSCRIPT

Originally aired 01.20.2012

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Prologue.

Ira Glass

I think at this point even the most casual news consumer has run across a lot of stories like this--

Male News Reporter

The focus of the European debt crisis move today--

Female News Reporter

Time is running out. Here's what would happen if the Eurozone fails--

Male News Reporter

Tomorrow there will be a unified statement of support for these European countries to come up with--

Female News Reporter

The crisis ongoing in Europe setting the stage for investing--

Ira Glass

So I am joined now here in the studio with somebody who actually understands economics and knows about this kind of thing-- Alex Blumberg with the *Planet Money* team and our staff. Hi, Alex.

Alex Blumberg

Hey, how's it going?

Ira Glass

Good. So Alex, I think I speak for all Americans when I ask you this question and that is, do I have to care about this?

Alex Blumberg

I am so glad you asked. I'm so glad you asked that question. Because we at *Planet Money* have been obsessed with Europe for the last couple of--

Ira Glass

Yes or no.

Alex Blumberg

The short answer is yes, you have to care. It's going to affect your life in some way. It might actually even cause the global economy to collapse, in which case you'll really want to know the story. But even if that doesn't happen, it is just a fascinating tale. You hear a report on the news it's all interest rates, blah blah blah, European leaders, blah blah blah. But underneath all that there is passion, drama, soaring hopes, crushed dreams. It's all there hidden in the news that you're hearing.

Ira Glass

Really?

Alex Blumberg

You don't need to care. You want to care.

Ira Glass

Well that's very good news because we have set aside the entire hour of the program today for you to tell that story. From WBEZ Chicago, it's *This American Life*, distributed by Public Radio International. Alex, I'm just going to hand they show over to you.

Alex Blumberg

All right and I say like, from WBEZ Chicago, that thing?

Ira Glass

No, I just said that. So you don't have to say that.

Alex Blumberg

So I don't have to say that?

Ira Glass

So you can just proceed. Have you heard this show before?

Alex Blumberg

No you didn't say, today's program.

Ira Glass

All right, I'll say-- you can say today's program.

Alex Blumberg

Today's program, Continental Breakup. This hour we're going to hear the surprising, dramatic story behind the crisis currently unfolding in Europe. I'm sorry. Do I say, stay with us? You say with us at some point before you go--

Ira Glass

I say it right there. So say it. Say it!

Alex Blumberg

Stay with us.

Act One. Currency of Dreams.

Alex Blumberg

Act One, Currency of Dreams. The story of the crisis in Europe is really the story of the euro, that currency that almost all the countries in Europe share. But think about that for a second. Why did they ever do that? All these different countries with all these different cultures all deciding to share a currency. Imagine if the United States, if Mexico and Canada, all agreed, hey you know what? We're going to get rid of our own money and start a new money that we'll all share. Think about all the meetings that you would have to have, all the coordination, and for what? We have our own money now. It works fine. Why would we ever do that?

Various *Planet Money* reporters have been making trips to Europe all year. And you're going to be hearing from them over the course of this hour. *Planet Money's* Chana Joffe-Walt will be telling the bulk of this story. And we're going to start at the beginning. We spent a lot of time talking to all sorts of people who were present at the creation of the euro, who dreamed and worked for years, decades, to make it happen. *Planet Money's* Chana Joffe-Walt and our colleague, Zoe Chace, tell the story of why they wanted it to happen and what they chose to ignore along the way.

Chana Joffe

History takes a long time to unfold in Europe. And the euro was that way. There were no euro coins or bills until 2002. But the dream of the euro had been around for 150 years.

Zoe Chace

But that's all it was-- a dream. The territory of artists, intellectuals, poets.

Chana Joffe

Yeah, Zoe read that thing from Victor Hugo, one of the very first calls for a united Europe.

Zoe Chace

OK, Victor Hugo, *Les Mis*, *Hunchback of Notre Dame*, here's an excerpt from a speech he gave in 1871. And keep in mind the actual Europe at this time is fighting a brutal war, tearing itself to pieces. OK here it is.

"And we shall hear France cry out, it's my turn Germany, here I am. Am I your enemy? No. I am your sister." And then he goes on to say, "Let us be the same republic, let us be the United States of Europe, let us be the continental federation. Let us be European liberty. Let us be universal peace."

Chana Joffe

It's nice, right? I keep thinking that the euro for all these years is kind of like Esperanto. You remember Esperanto, the international language? It'd be really easy to learn. We'd all pick it up and speak one tongue across borders and then there'd be international peace and understanding. The dream of the euro was kind of like that.

Zoe Chace

But let me ask you, do you speak Esperanto today? No. Do nearly 332 million people carry euros in their pockets? Yes. So what happened?

Pascal Lamy

World War II was such a catastrophe.

Chana Joffe

This is Pascale Lamy, the right-hand man to the father of the euro, Jacques Delors. Delors is old now. He's too old to give interviews. But Lamy was there at the key turning point when the euro stopped being a quixotic dream and started looking like a real necessity.

Pascal Lamy

It's just after the Second World War that the notion of integrating Europe politically became a serious political idea. Before that it had been dreams.

Chana Joffe

But after World War II it was being talked about in two of Europe's most powerful nations-- in France by people like Lamy-- he went on to head the World Trade Organization. And in Germany by people like Helmut Schlesinger, former president of the German Central Bank.

Helmut Schlesinger

One cannot forget that the whole strength of having a European Union is based on the fact that we never want to have war between our countries, which we have had so much and so terrible.

Chana Joffe

Germany no longer wanted to dominate Europe. It wanted the opposite, actually. It wanted to be a team player, a peacemaker. Germany wanted to be the nicest guy at the European table.

Zoe Chace

Of course, France didn't want Germany to dominate either. Germany would always be bigger, more powerful. So France wanted to link its economy to the German economy. That way Germany's strength would be France's strength.

Chana Joffe

And also, a united Europe would be big enough and rich enough to become the world's other superpower and rival the United States, which both countries liked. All this was making a once-poetic dream much more appealing.

Zoe Chace

But of course there were problems. Two main problems-- one German, one French. For the Germans, the whole sharing a currency thing made them very nervous. They worried it would lead to inflation.

Chana Joffe

And Germans are really scared of inflation. It calls up a bad memory-- the hyperinflation of the 1920s, the worst bout of hyperinflation in recent history. You may have heard about Germans carting their money around in wheelbarrows or using worthless German Marks to wallpaper their homes. Many people in Germany feel like it was this experience that opened the door for the Nazis to come to power.

Zoe Chace

I was reporting on the euro crisis in Berlin a couple months ago, and it shocked me how readily Germans would bring up the hyperinflation of the '20s when talking about their problems today. Klaus Frankenberger is an editor at the German newspaper, the *FAZ*.

Klaus Frankenberger

I mean Germany is always stability minded as you know. Order, stability, that's part of our collective DNA I would say. But these historical experience tell every policy maker, you don't mess around with inflation. Never. You don't do this.

Zoe Chace

So Germany's position in the decades-long conversation that led to the euro was this-- if Europe wants to have a single currency, then we can't have all these separate governments out there. We need to become what Victor Hugo dreamed of, a United States of Europe. But the Germans wanted this, not for poetry, but to keep inflation in check. They wanted an overarching authority that can say to individual countries, here is how to run your economy.

Chana Joffe

Can you imagine France no longer its own country but a member state in a united federation of Europe? Yeah, the French couldn't either. Again, here's Pascal Lamy.

Pascal Lamy

The French like Europe if Europe is a big France. That is something that they drive, something that doesn't bite too much into the French sovereignty. It took 30 years of discussion.

Chana Joffe

So for 30 years the French and the German were saying to each other, the Germans were saying, well what about our Deutsche Mark and the French were saying, well what about our national identity?

Pascal Lamy

They were not always saying this. Because diplomats and governments don't always say what they have in mind. But that's what they had in mind.

Zoe Chace

And it could have gone on like this, haggling back and forth over these issues, until this happened--

Male News Reporter

From the Berlin Wall, take a look at them. They've been there since last night. They are here in the thousands. They are here in the 10s of thousands. Occasionally they shout, "Die Mauer muss weg," the wall must go.

Chana Joffe

In 1989 the wall separating East and West Germany was about to fall, and the Germans wanted French support for their reunification. The rest of Europe was still a bit wary of Germany. When you plunge the world into one of the bloodiest wars in history it's kind of hard to live that down. And here, Germany was about to grow even larger. So France said, OK, you can have our support if we all go on the euro.

Zoe Chace

And the French got their way. There would be a common currency but no United States of Europe, as the Germans wanted.

Chana Joffe

What the Germans got were promises, promises that all the countries that used the same money would play by German rules. They would guard against inflation. If a country wanted in on this common currency, the euro, they would have to

borrow responsibly, be careful about their deficits. In other words, to use the euro, the rest of Europe would need to make itself more German.

The rest of Europe seemed very happy to do just that, even if for many countries in Europe, becoming more German was a completely unrealistic dream. Nowhere more unrealistic than in Greece.

Loukas Tsoukalis

Our inflation rate was much higher than what was accepted, our budget deficit was much higher than what was accepted.

Zoe Chace

This is Loukas Tsoukalis with the Hellenic Foundation for European and Foreign Policy in Athens.

Loukas Tsoukalis

If you asked somebody in Europe whether Greece would join in the Eurozone, and you asked that question let's say, in early, mid-1990s, the answer would have been, you are mad. Because all Greek indicators were far off. No chance in your lifetime.

When the European Statistical service produced graphs which showed all the different countries in terms of inflation rates, in terms of interest rates, very often Greece appeared in an insert because it couldn't fit in the graph. Because if your inflation rate is 20, it doesn't fit in a normal graph. So you either have a big graph but it doesn't show anything or you have a reasonable graph and then you have inserts.

Chana Joffe

Greece is over here?

Loukas Tsoukalis

Yeah, but Greece was not the only country, but it was one of the worst, and usually the worst.

Chana Joffe

Still, Greece began a national campaign to make it in. And other countries were doing the same.

Zoe Chace

Willingly, even if it means pain. For instance, Italy. Their deficit was too high so the Italian prime minister at the time, Romano Prodi, said we need a new tax to cut it down. If we want into the euro we have to pay. Beppe Severgnini the Italian journalist, who was there at the time. And he talked to our colleague, Alex Blumberg.

Beppe Severgnini

The mood was so enthusiastic that when Romano Prodi proposed a tax in order to sort out our public finances people-- would you believe that-- sort of put up the money. And didn't-- not only didn't moan-- they said, well that's something we have to do. We'll do it. And it was a kind of hefty tax. I remember that.

Alex Blumberg

And what was the dream? What were they paying for? In the minds of the average Italian, what did it represent, being part of the euro?

Beppe Severgnini

Well, to be in this sort premiere league of Europe, number one. Second, to have a stable currency, to be anchored the Deutsche Mark because it was obvious at the time-- and it still is obvious now-- that the engine for this all was Germany. So to have the same currency as Germany is good for everybody. So we want to be in that league and not in this sort of other league with weak local currencies.

Zoe Chace

For Greece and Italy and Portugal and even for France, the euro meant a more stable, more prosperous, more German existence.

Chana Joffe

And so in the years leading up to the euro, countries cut spending, reduced deficits. The numbers started to look, at least on paper, a lot more German.

Zoe Chace

So much so that in some cases it was a little hard to believe.

Chana Joffe

Cases like Greece.

Zoe Chace

In the late '90s all across Europe, finance ministers and their deputies would meet. They'd gather around tables in Brussels and Paris and Berlin with their rules in hand. And the Greeks were there reporting their data that they'd made it. They'd met the criteria for euro membership.

Chana Joffe

According to several people in these meetings, typically here is how it would go-- The Germans or the French would say, we have these rules. Every country has to meet the criteria. Yes, we do, the Greeks would respond. There would be glances around the table. It sure is a good thing we have these rules, someone would say. More glances. Jacob Kirkegaard is at with the Peterson Institute for International Economics and he followed these meetings closely.

Jacob Kirkegaard

The leaders of France and Germany and others couldn't really stand up and say, look our data are superior. You are lying, basically, about these data. And that's why we will not let you join the euro.

Pascal Lamy

We all knew and we all know now and we all knew at the time that Greece was fudging its statistics.

Chana Joffe

Pascal Lamy, right-hand man to the father of the euro, says it wasn't just the Greeks. People had questions about the Italians, other countries, too. But nobody actually said that.

Pascal Lamy

Because that would have been too un-nice to some of their colleagues in the country. There remains a level of diplomatic correctness and politeness.

Chana Joffe

So nobody challenged the Greeks because they were trying to be polite?

Pascal Lamy

Exactly it.

Chana Joffe

That's so crazy. It just sounds so crazy now. I mean, I understand at the time that might have made sense, but it sounds crazy now.

Pascal Lamy

Quite. That's the definition. You just gave a very good definition of a mistake. Something you believe is not a problem and then you realize, whooo, I shouldn't have done that.

Zoe Chace

There was one other thing keeping all these countries around the table from voicing their objections-- money. Remember the poorer countries in Europe wanted the benefit of a strong, stable German currency. And Germany wanted customers.

Chana Joffe

Germany makes cars, appliances, high-tech precision machines, lots of stuff. And hundreds of millions of Europeans with the same currency, a strong currency, meant hundreds of millions of customers that just got a lot richer. The more regular people in Greece who could buy a Mercedes, the better for Germany.

Zoe Chace

It would be better for everyone. Together, the feeling was, they'd all be more prosperous than they would be on their own. And so, a new currency was born.

Act Two. Eurotopia.

Alex Blumberg

This brings us to Act Two, Eurotopia. On January 1, 2002, the euro arrived. The culmination of a 150-year-old dream. The most ambitious financial and political change since money began. Or as the BBC put it--

Male News Reporter

The most ambitious financial and political change since money began.

Alex Blumberg

This is a BBC report from January 1, 2002, when, for the first time in modern history, a huge chunk of the continent of Europe would be using a single currency. You definitely get the sense that, for most Europeans, when they finally got the euro, it felt like something to celebrate.

Male News Reporter

Midnight in Brussels, the moment a new currency was truly born. Plenty were out to celebrate its arrival.

Female

I think that it brings the countries-- the euro brings them closer together.

Female

I think at the beginning there were many problems. But of course I think it's a good thing.

Male

Tomorrow in Holland, we're going to use money we picked up in Belgium today. And then we'll be in France again the day after, and again it'll be the same money. It's magic. It's just got to be the way to go.

Alex Blumberg

People in the US, if we remember the debut of the euro at all, it's with this, oh yeah, that happened, sort of feeling. It's hard to understand what the excitement was all about. But as Chana Joffe-Walt explains, in large parts of Europe the euro didn't just change the money, it transformed the way people lived.

Chana Joffe

A few months before the euro arrived in Greece, Theophilus Papakostakus was called into a meeting. Theophilus is a bank teller. And this wasn't unusual. The manager was often calling meetings, usually to talk about the overtime policy or some new paperwork requirements, but this was different.

Theophilus Papakostakus

So one day after work he got us together and, among other things, he said, you should forget what you know. Soon enough you'll forget everything you know about banking. Everything is going to be all new. Soon it's going to be like a supermarket. People will come in and buy all kind of different things. Banking is not going to be only deposit, saving money. It's going to be retail. I specifically remember that expression, retail banking.

Chana Joffe

And when he said that, what did you think?

Theophilus Papakostakus

Well, we laughed. I said, yeah, sure. I'm sure, yeah. Well, it did happen.

Chana Joffe

Every morning after that, Theophilus would come into work, turn on his computer, and the interest rate on consumer loans would be lower. 18% then 15%, 12%, 6%, 4%. Now the reasons why this was happening, we'll get to in a minute. I first just want to talk about the sheer fact that it was happening and what that fact meant.

Imagine if your mortgage rate went from 18% to 4%. Or the rate that you could get on a car loan. Most people in Greece never borrowed money to pay for anything before, and now they had people essentially throwing money at them. Theophilus bought two cars. His neighbors bought a vacation home. The neighbors on the other side of the street took out a loan for their vacation and then refinanced that loan. Really, everyone I met in Greece has a story like this. My cab driver, Adonis Barkolis, in Athens.

Adonis Barkolis

I used to own a Toyota, and in 2004 I bought this.

Chana Joffe

What's this?

Adonis Barkolis

A Mercedes.

Chana Joffe

A black Mercedes. The bar that I went to used to have just two restaurants. In 2003 it became an industrial brewery, too.

Restaurant Owner

Well for us, this is fantastic. 2002, when we started the building our industrial brewery, in total we have invested about 7 million euro, which is close to \$10 million, which is a big amount of money for our company. And this is when we get out of the banks and the interest is very good. We were able to borrow money at 4.5%, which is excellent.

Zoe Chace

And it wasn't just private citizens taking advantage of the low rates. Loukas Tsoukalis at the Hellenic Foundation says most importantly the Greek government got in on the action. Mainly by returning to a favorite practice of Greek politicians, addressing unemployment by hiring people.

Loukas Tsoukalis

In the last two years they employed a large number of people in the Greek public sector. So they added to the salary bill.

Chana Joffe

Doing what? Being fireman and police?

Loukas Tsoukalis

Yes. Or you create mythical jobs.

Chana Joffe

What's the craziest thing you remember hearing of?

Loukas Tsoukalis

I think there's, for example, an organization which was set up for the drying up of a lake. I think the lake has been dried up for the last 30 years, but the organization is still there. So there are a few employees who are paid for something that is not even remembered in a history book.

Chana Joffe

The euro had arrived. And cheap money was flowing into countries all over Europe-- Ireland, Portugal, Spain. There was money for projects which never would have gotten funded before. Luis Garicano is a Spanish economist and he told me about this tiny little bank that funded a big project in La Mancha, Spain.

Luis Garicano

Your listeners will know La Mancha as the area where Don Quixote lived. And it's as empty as it was in the time of Don Quixote. It's a big plain. Imagine it as completely empty. And in the middle of that plane there is an airport, to which nobody wants to fly.

Chana Joffe

Is that airport open now?

Luis Garicano

It's a potato field. I mean, it's really only suitable for growing potatoes. That terrain is really never going to be a commercial airport.

Chana Joffe

And yet, there is an airport. The local people wanted one, and the euro gave it to them.

Claudia Farmier

It was like the manna from heaven.

Chana Joffe

This is Claudia Farmier back in Greece. I met her at a brunch up north, actually at the bank teller's house, Theophilus. Remember the guy was called into the meeting, pre-euro? He invited me to his house. And there, nearly a decade after the euro had arrived, his friends are sitting around just reviewing how everything did really change.

Theophilus Papakostakus

One day everybody thinks, this is paradise, let's go get everything. That's what happened.

Chana Joffe

But why now? But why, one year do you not have any money to buy cars and vacations and homes and then the next year you have everything you could possibly want?

Claudia Farmier

Maybe he knows. He was working in the bank. I don't know where the money comes from.

Chana Joffe

Do you know?

Theophilus Papakostakus

Ehhh-- from, I don't know. I don't know.

Adam Davidson

Hey, Chana?

Chana Joffe

So this is Adam Davidson with *Planet Money*.

Adam Davidson

I think I can help you. Because I actually do know who lent all that money to Greece and all the other people in Europe. I actually was in the room where they did it. The room is in Southern California, in Newport Beach. It's this huge room. And it's all these hundreds of people sitting at these long tables, each of them is looking at three or four computer screens-- one guy had six computer screens-- with all these numbers flashing on them. Although when you're there, if you closed your eyes you'd have no idea that there were that many people there.

This is the quietest room of 200 people I've ever been in. It's a little noisier than usual right now.

This is the trading floor of a company called PIMCO. And I would guess most of our listeners have not heard of PIMCO, but I can guarantee that every finance minister of every country in the world definitely has. Because PIMCO is one of the largest bond fund managers in the world. That means they are one of the biggest lenders of money to governments all over the world.

Chana Joffe

And Adam, let me just jump in for people who need a refresher. Buying a bond is the same as lending someone money. You buy a bond for \$1 million from someone with the promise that they're going to pay you back in full, with interest, over some period of time. So buying a Greek bond for \$1 million, that's the same exact thing as loaning \$1 million to the Greek government.

Adam Davidson

Yeah, it's like an IOU. And all these people with all their computer screens spend their time figuring out, well which bonds should we buy? Which governments, and also companies, should we lend money to? Now the people at PIMCO, the people at these desks, it's not their money. They're watching over it for a while. They're money managers, managing the money for insurance companies, pension funds.

Chana Joffe

If you have a retirement account, they might be managing your money. They manage savings for central banks, universities, basically anybody with a huge amount of cash sitting around.

Adam Davidson

And if you add up all the money they manage, it's over a trillion dollars. And they don't want to lose any of it. They are looking for safe, sensible governments to lend money to. And for several years, after the turn of the millennium, one of the countries PIMCO decided, oh now they're safe, they're sensible, was Greece.

Scott Mather is the guy who runs the global portfolio for PIMCO, and he says basically overnight Greece went from a bad bet to a sure thing. And the reason was the euro. Because of the euro, Scott and all the other money managers for other companies all over the world completely changed how they looked at Greece. It was no longer just one small, poor dysfunctional country in a corner of Europe. It was now a full member in good standing of one of the largest economies in the world. The Eurozone.

Scott Mather

The market was basically giving Greece a benefit of the doubt because they were a Eurozone member, part of the club, for the better part of a decade.

Adam Davidson

Going on the euro for a lot of countries was like getting a rich uncle to cosign a mortgage or a credit card application. Greece, Spain, Italy, Ireland, Portugal, all were allowed to borrow a lot more money at much lower interest rates than they had been before.

And that, Chana, that is why your cab driver could get a cheap loan to buy a Mercedes. It's why a sleepy bank in La Mancha, Spain, could build an airport. And it's why Irish banks grew several times larger than the entire economy of Ireland.

Chana Joffe

And then, quite suddenly, everything changed.

Adam Davidson

Yes. It all changed one day when, Chana, your people in Greece made a shocking announcement.

Chana Joffe

Well, Adam, your people in Newport Beach, that was quite a dramatic reaction, don't you think?

Adam Davidson

We'll get to that.

Act Three. Ooh, I Shouldn't Have Done That!

Alex Blumberg

Actually, guys this is a good place for me to step in and say we have arrived at Act Three. And I'll let Pascal Lamy-- remember the right-hand man to the father of the euro? He's going to give you the act name. Act Three--

Pascal Lamy

Ooh, I shouldn't have done that!

Alex Blumberg

All right, take it away.

Chana Joffe

OK, first back to Athens, 2009, to the exact moment the crisis in Europe began.

Loukas Tsoukalis

What happens is in 2009 we have an election in October.

Chana Joffe

This is Loukas Tsoukalis again, with the Hellenic Foundation in Athens. So Greece had been borrowing money from PIMCO in Newport Beach, and from others. And then there's an election in Athens, a new socialist government comes to power and says, Greek people, PIMCO, world, we have something to tell you.

Loukas Tsoukalis

The people's government was claiming that the deficit of that year was running at something like 6%. The socialists come to power and they announce a few days later what they have discovered is that the deficit is actually closer to 13% and not 6%.

Chana Joffe

Adam, that's double what they had previously reported.

Adam Davidson

And all those bond traders staring at those computer screens at PIMCO's headquarters in Newport Beach, California, they had lent all this money to Greece based on very specific information. And suddenly that information turned out to be very, very wrong. And they wanted to know, how did this happen?

Chana Joffe

Yeah, and see, the thing is, it's a little hard to answer that question. The Greek politicians explained, the last guys, they lied to you. The deficit was never 6%. We are telling you the truth. The truth is 13%. But when you ask people ask at the Government Statistics Office, the very people who come up with the numbers, people like Konstantinos Skordas, they say things like this.

Konstantinos Skordas

Everyone here in Greece said, what number is this? It's outrageous.

Chana Joffe

Instead of the Greek Statistics Office workers saying, we messed up. Here's what went wrong. Here exactly, is how we're going to win back your trust, make sure it never happens again. No. Instead, the workers just kind of shrugged their shoulders.

Konstantinos Skordas

Nobody knows.

Chana Joffe

But you you guys work in the Statistics Office.

Konstantinos Skordas

Yes.

Chana Joffe

So I mean, it just seems like why would you-- you're the first people I would expect would know that, would not be surprised by that. Because you work here.

Konstantinos Skordas

The people here who were worked above this model said we did our job very correctly.

Jacob Kirkegaard

Everybody said, look these guys clearly cannot be trusted.

Chana Joffe

This again, is Jacob Kirkegaard with the Peterson Institute for International Economics. And he says, at this moment, the people who had lent money to the Greek government were shocked.

Jacob Kirkegaard

The situation is much, much worse than what they said just a few days ago. The reality is much worse than I thought and therefore, I'm out of here.

Alex Blumberg

I'm out of here. Chana, that is exactly what happened in Newport Beach around this time. The bond guys at PIMPCO took action. Bond action.

Mohamed El

In the end of last year we sold all our Greek, Portuguese and Spanish exposure.

Adam Davidson

This is Mohamed El-Erian. He's the CEO of PIMCO and one of the most influential people in the world of bonds. When he starts selling all his Greek bonds, people all over the world pay attention. El-Erian must know something. He's really smart. And then everywhere people are selling their Greek bonds. And what really struck me is how imbalanced things are. For PIMCO it's just not that big a deal to sell all their Greek, Portuguese and Spanish bonds. It's a few clicks on a keyboard, moving around a relatively small amount of their overall money. But for the countries whose bonds they're selling, it feels a lot more like the end of the world.

Soon the Greek government had some new bonds they wanted to sell. And they came to PIMCO hoping they'd buy.

Mohamed EI

The Greek government came with lots of offerings.

Adam Davidson

Did they come to you directly?

Mohamed EI

They did come to us directly via our offices in Germany and London. And we said, thank you but no thank you.

Adam Davidson

What did they ask? What did they say?

Mohamed EI

They said, we are issuing \$5 billion, \$7 billion. Lots of people are participating. Look at how attractive these bonds are and we said--

Adam Davidson

You mean the interest rates are higher than the rest of Europe?

Mohamed EI

The interest rates are higher, not only than the rest of Europe but they were higher than what they were before. And we said, thank you very much. We appreciate it. But our analysis shows that sovereign risk is an issue.

Adam Davidson

Sovereign risk is an issue. That's one of those phrases that sounds pretty innocuous and boring, but it hides something really dramatic. It means that for PIMCO, Greece went from being one of the countries that you don't have to worry about to one that might not be able to pay its bills. When money managers worry about a country not paying its bills, things get very weird.

Chana Joffe

Back in Greece, after several years of cheap money, there was no money.

Katerina Margaritu

Everybody was talking about it.

Chana Joffe

This is Katarina Margaritu, a Greek chemist in Athens.

Katerina Margaritu

Suddenly all they were talking about the Greek crisis. We are in the crisis. We have no money. We are going broke. And I was shocked. I didn't know anything.

Chana Joffe

Katerina spent a few weeks after this just feeling winded. She remembers she'd sit on her couch and think about everything that just happened and wonder how it could be that her government overspent so dramatically. She thought about it and she thought, oh, yeah, I guess that unemployed friend of mine finally got a job. We all thought that was never going to happen. Actually a lot of people got jobs. Oh, and we got that new subway system.

Katerina Margaritu

Stadiums, roads, a bridge-- a very expensive bridge. Also we had the Olympic Games in Greece. We must have spent a lot of money there. Money we couldn't have. I think that was the time I realized that we borrowed an enormous amount of money that we couldn't possibly pay back.

Chana Joffe

Here again, is Jacob Kirkegaard with the economics think tank.

Jacob Kirkegaard

This is the moment in time in which Greece is no longer a solvent country.

Chana Joffe

So the sovereign debt crisis, that's when it started?

Jacob Kirkegaard

That is when it starts, yes.

Alex Blumberg

Coming up, facing life in prison for doing math. That's in a minute from Chicago Public Radio and Public Radio International when our program continues.

(HOST) IRA GLASS: It's *This American Life*. I'm Ira Glass. Today's program, Continental Breakup, the epic story behind what is boringly referred to most of the time as the European debt crisis. It's really the story of the euro, the rise and fall of the euro. How it transformed life for people all over Europe. We've turned over the entire episode today to the *PlanetMoney* team. And as your host, your guide for the hour is Alex Blumberg. Hi, Alex.

Hey. So we were in the middle of Act Three, which began, remember with fireworks commemorating the euro's debut January 1, 2002. There were people all over Europe celebrating, saying this new currency's like magic. We all now know of course that the euro hasn't been working out so great. But there's this amazing moment in that BBC story from 2002, the reporter, Justin Webb, finishes his report and the anchor asks him one follow-up question. And Justin Webb proceeds to almost perfectly predict the future.

Bbc Anchor

Justin, when will it be possible to judge whether the changeover has been a success?

Justin Webb

Well the short answer is not today and not in a few days to come, either. Although there is a positive mood, it really us nothing about the long-term future. We will only know whether this currency is a success when there is a severe economic shock in one Eurozone nation and the other nations rally round and the currency survives. That is some time in the future. So a positive mood today and that is helpful, but the jury is still out.

Alex Blumberg

Truer words were never spoken, Justin. The economic shock has arrived in Europe. And it's spreading. Here's Adam Davidson and Chana Joffe-Walt to pick the story back up.

Adam Davidson

When the Greek government made its shocking announcement about its huge deficit numbers in 2009, that is when the euro turns from a blessing to a curse. When times are good, the strongest country can make everybody stronger. But when times are bad, the weakest country can bring everybody down. Remember what Mohamed El-Erian, the CEO of PIMCO, said he did around the time of that announcement?

Mohamed El

In the end of last year we sold all our Greek, Portuguese and Spanish exposure.

Adam Davidson

In other words, we're going to stop lending to Greece. But we're also going to stop lending to Portugal and Spain. Now Portugal and Spain, they didn't lie about their deficits. In the case of Spain, they'd actually been pretty conservative throughout the decade in the way they handled their finances.

Chana Joffe

But when Greece made that announcement, it shattered the image of the Eurozone for people like El-Erian. Instead of seeing all the euro countries as the same-- safe, boring, basically Germany-- they saw them all as opposite. They went back to being what they were before-- individual countries with individual problems. Some looked like a safe bet to loan money to, others, maybe they'd get their money back but maybe they wouldn't. And for those countries, the ones they were worried about, it just gets harder and harder to find anyone to lend them money.

It started with Greece, and then--

Male Reporter

The European debt crisis showing no signs of easing yet. The S&P credit raters say they might downgrade Portugal's credit rating.

Male Reporter

Spanish 10-year bond yields fair now at their highest level since 2002 as Eurozone contagion fears continue to ramp up. Pressure on Spain--

Male Reporter

Whether it's Italy one day or Spain the next. Today it's Belgium.

Male Reporter

I mean, look at that move. Whoa. It kind of leaves me speechless.

Male Reporter

And so there's another one we're going to have to start to worry about. Yes indeed, and the spread by the way in terms of what Belgium's able to borrow at--

Chana Joffe

It used to be, before the euro, when times were bad in Greece or Italy or Portugal, when those countries got themselves too deep into debt, they could do something about it. They could create money. They could create drachmas or liras, escudos, and essentially use that money to pay off their debts.

Adam Davidson

But now that Greece and Italy and Portugal were part of the euro, it was no longer up to them to create more money. It was up to the institution that controls the euro, the European Central Bank. And when the European Central Bank was created, the Germans insisted-- or else they would not join the euro-- that the European Central Bank would not do anything that might risk inflation. And creating a lot of euros so that the Greeks and Portuguese could pay off their debts, that definitely risked inflation. So the troubled countries of Europe were stuck.

Act Four. Do-Over.**Alex Blumberg**

Act Four, Do-over. It's been over two years since the Greeks made that shocking announcement about their deficit number, and the crisis has been spreading throughout Europe ever since. European leaders have tried a variety plans to fix things. And typically, there's a big announcement about a new solution, things stabilize for a day or two, maybe a week, and then everything gets worse than it was before.

But then, just last month, December 9, 2011, the Europeans came to an interesting-- and what they described as-- final plan. The plan was essentially correct the original sin of the euro. Give the rules-- those rules all the Eurozone countries are supposed to follow but didn't follow-- give those rules actual teeth. If countries break the rules, European leaders will send in a SWAT team of technocrats to come in and take over.

So now governments in Spain, Italy, Ireland, are scrambling to bring their budgets in line with these rules-- cutting down debt, trying to make themselves seem safe, dependable, trustworthy. Trying to make themselves seem like the kind of countries the world would be happy to lend money to.

It seems like a straightforward plan. And the obvious place to start would be Greece. That was where the crisis first started and indeed, European technocrats schooled in the German mindset are already there trying to fix things. Chana Joffe-Walt went to see how it's going so far.

Chana Joffe

The very first place the technocrats went was 46 Pireos Street, the Greek Statistics Office, the very building the crisis began in. You remember the guys who reported, whoops, the Greek government deficit is actually twice what we said before and then offered this confidence inspiring explanation of what happened.

Konstantinos Skordas

Nobody knows.

Chana Joffe

This is Konstantinos Skordas. You can think of him as sort of the Greek old guard. He, like the majority of his colleagues here, have worked in the Statistics Office for decades. In the summer of 2010, a European technocrat arrived in the building to lead the Greek old guard into this new European world. His name Andreas Georgiou. He's Greek, but he's been living abroad for decades. And he's kind of a no-nonsense numbers guy, the guy who opens an interview by telling you he'd prefer you disappear.

Andreas Georgiou

My goal is to make this a competent, boring institution and not to be in the limelight. Actually not to have to give an interview like this one.

Chana Joffe

Georgiou has obviously not yet achieved his goal because here I am to find out why he hasn't. Because, quite frankly, his job seems kind of easy. All he has to do is produce a couple numbers-- one number, really. The real deficit number for 2009. And just that one job is not going well.

Andreas Georgiou

Things appear to be difficult, actually, in some areas from the very beginning.

Chana Joffe

In the very beginning, August, 2010, Georgiou arrived and got straight to the numbers. He was going to calculate the true deficit number. Investors were going to see Greece has this new bureaucrat at the helm. Faith would be restored. But within a few minutes of sitting down with the data, Georgiou realized, this is going to take a while.

Andreas Georgiou

In order to be able to count what is the deficit and the debt, you have to know what you are counting. You have to know which institutions belong in this concept called government. So that was, for example, an open question.

Chana Joffe

You might think what is part of government and what is not part of government should be pretty clear. It was not. Georgiou sifted through spreadsheets, and the first thing he found was a national train company that just wasn't included anywhere in the numbers. Then he found a national TV company, then a tourism organization.

Andreas Georgiou

We found 17 institutions, large institutions, were left out.

Chana Joffe

Why would they have been left out?

Andreas Georgiou

I did not know. But this is, you asked me what I found. In principle this should not happen.

Chana Joffe

And finally, at the end of 2010, Georgiou and his staff had a new deficit number to report to Eurostat, to the European Statistical Agency. Greek 2009 government deficit, final number-- 15.8% Now 15.8%, that's even higher than the number that set off the debt crisis. But Eurostat praised his methodology. They blessed his number as true. They said, finally we have a real, grown-up number.

Meanwhile the Greek old guard? They weren't so happy. People like Konstantinos Skordas didn't like having their previous work criticized. They didn't like the new guy, and they definitely didn't like his new deficit number.

Konstantinos Skordas

Everybody said, oh what number is this? We expected to discuss this matter, some peculiar words he told to us. And we had a lot of questions about it.

Chana Joffe

Skordas and several others in the Greek old guard insisted that a Statistics Office board should have been consulted. In fact, the Greeks in this building, they said, should be involved in anything that gets reported to European authorities about how Greece is doing, especially a deficit number. They argued, they should get to vote. Georgiou, the technocrat, he saw this as a threat to his independence. He told them, you don't get to vote on this. The number is the number.

Andreas Georgiou

But then something happened, which was absolutely shocking.

Chana Joffe

Georgiou says a few weeks after he sent the new deficit number to Eurostat, a colleague of Skordas, a prominent member of the Greek old guard, send him a note and asked to see him. Georgiou says the two met in a small room, adjacent to his office, and the guy from the Greek old guard sat across from Georgiou on the couch.

Andreas Georgiou

And presented me with a document that only existed in an email communication between me and my lawyer through my personal email.

Chana Joffe

What did you say?

Andreas Georgiou

I didn't say that he has hacked into my emails. I said that this is a product of a criminal act. And the answer that I got was that things like that happen.

Chana Joffe

Things like what happen?

Andreas Georgiou

That things that are in my personal email could find their way around. He said, things like that happen in Greece. And I told him that, no, they don't happen in my country, or at least they shouldn't happen in my country.

Chana Joffe

The old guard, including the man accused, deny this ever happened. And then the Statistics Office workers went on strike against the technocrat, against Georgiou. Twice they struck. Mathematicians and accountants holding signs, walking a picket line. At one point they occupied the building so no one could get in. And then, last fall, Andreas Georgiou got a phone call from a Greek government official.

Andreas Georgiou

The Prosecutor for Economic Crimes.

Chana Joffe

The prosecutor, Georgiou says, explained that the office planned to clarify the contested 2009 deficit number and he wanted Georgiou's help. Georgiou says he sent over 75 boxes of documents, documents which explained exactly how he came up with his real number.

Andreas Georgiou

And a few weeks after that I got another letter asking me to appear in front of the prosecutor. And to my surprise they asked me where my lawyer was. And I asked why I needed a lawyer, and they explained to me that I was being invited as a suspect not as a witness.

Chana Joffe

In other words, Andreas Georgiou is being accused of a crime.

Andreas Georgiou

Something called breach of faith against the state.

Jacob Kirkegaard

To me, well there's no other word for it than insane.

Chana Joffe

This again, is Jacob Kirkegaard with the Peterson Institute for International Economics. And Kirkegaard says members of the Greek old guard have alleged Georgiou is colluding with European leaders, that Georgiou deliberately made the deficit number high so Greece would look bad and European leaders could come in and run things the way they want to. Georgiou faces life in prison.

Remember, Kirkegaard says, this is the guy that was supposed to change the public image of the Statistics Office.

Jacob Kirkegaard

I mean, the worst thing you can do if you were trying to restore outside confidence is, of course, to indict the guy who has been trying to establish credible, defensible and truthful data.

Chana Joffe

If this is the new plan to save the euro, send in the technocrat to fix things, it does not seem to be going well, at least not in Athens. The technocrat is harassed, his email hacked, he's accused of treason, and he faces life in prison. It is hard to make Greece Germany.

Act Five. What's a Greek Accountant Got to Do With Me?

Alex Blumberg

This brings us to Act Five, What's a Greek Accountant Got To Do With Me? The answer would normally be nothing. Greece is a pretty tiny country and every other country in the Eurozone is in much better shape than Greece. But that doesn't matter right now. You're going to be hearing a lot about Greece in the next couple of weeks and months. People will be talking about whether Greece can get some of its debt forgiven, whether Greece will get its next bailout. And the thing you need to keep in mind as you hear all this, what those people are really talking about when they're talking about Greece is Italy.

Chana Joffe

It feels like a big leap to go from Greece to Italy.

Alex Blumberg

Yeah, Chana, it really does. And so let's just talk through this. I mean Greece in in much worse shape than Italy. But Italy is next in line. You remember worries about Greece cast the shadow on Portugal which then cast a shadow on Ireland and then Spain? At the end of last year it finally reached Italy. Suddenly Italy, like Greece and Portugal and Ireland and Spain before it, was having a harder and harder time finding anyone to lend it money at reasonable interest rates.

Female Reporter

Italian bond yields hitting record levels today as investors expressed their concern about how and when the country will address its fiscal constraints.

Chana Joffe

And this is the moment where the debt crisis took a really scary turn. Because Italy, Italy is enormous. Italy's the seventh-largest economy in the world.

Male Reporter

Everybody knows Italy is a huge economy. If Italy starts teetering more than it already is, it's going to be an issue.

Male Reporter

The situation in Italy is really now getting serious, and I think we are approaching a kind of systemic crisis right now that reminds very much to the situation in 2008.

Chana Joffe

2008, you may remember, that's when the US economy fell apart. And this is why when people say they're worried about Greece, they're actually worried about Italy. Because Italy's destiny is now tied to the destiny of Greece.

Alex Blumberg

If our last financial crisis taught us anything, it's that relatively small defaults can have very large consequences. The last crisis began, you may remember, with the collapse of a pretty small investment bank, Lehman Brothers. A default in the tiny country of Greece could have similar catastrophic consequences, cause a chain reaction of defaults ending with Italy. Greece, Greece is the cigarette. Italy is the gas station.

Chana Joffe

And this is where, if you're in the United States and you didn't already care, you might start to care.

Alex Blumberg

The United States seems finally to be on a slow, fragile path to recovery. Europe could kill that. It could slow it down. It could stop it. It could make things worse than they were before. Most days the crisis in Europe seems like this slow-moving mess that will eventually work itself out. But every once in a while the question arises, what if it doesn't? Satyajit Das is a risk consultant and former banker. He spent his life in finance, and he's been following the crisis closely. How scared are you?

Satyajit Das

I've been doing this for 34 years in financial markets. This is the first time in my life I actually am really worried. Because when you're talking about countries the size of Italy, this is really truly one of the scariest moments in my professional life.

Chana Joffe

Das is scared because in his view, the new plan to save the euro is exactly the opposite of what should be happening. European leaders, he says, largely Germans, are still trying to get countries to obey their rules, those rules they set up back at the very beginning of the euro, to get countries like Greece to cut spending, bring in more in tax revenue, get their budget in line.

Alex Blumberg

But here is what happens when you cut spending and raise taxes-- the economy generally shrinks, especially in the middle of an economic crisis. In Spain, the unemployment rate has continued to rise. It's now over 20%. That is Great Depression territory. In Ireland and Portugal it's not much better. Most people think that all of Europe is in a recession right now. And the question is only, how bad will it get?

Chana Joffe

I have to say, being in Greece, it really does feel like a country on the verge of falling apart. Do you remember Katarina Margaritu, the Greek chemist?

Alex Blumberg

The one who who went back and remembered, oh that's all those things that we spent money on that we couldn't afford?

Chana Joffe

Right, my friend got a job, we got the subway system. So she actually works as a contractor for the Greek government. About a third of the Greek population relies on the government for a paycheck. And right now?

Katarina Margaritu

They don't pay us because they have no money. Truth is that the last paycheck I took was from July. So my company now owes me the salary from August, September, October, November and December. So I haven't been paid from July.

Chana Joffe

So what keeps you going to work?

Katarina Margaritu

Well, I like my work. You see, every day we work we bring money to the company. So every time we bring money we are increasing the possibility to get paid.

Chana Joffe

Do you think that you'll get paid the back pay?

Katarina Margaritu

Yes. I'm sure.

Chana Joffe

Katerina's boyfriend, you can hear him in the background there, he is not so sure. Actually he is absolutely sure there is no way she will get paid. And I have to say I'm with the boyfriend on this.

Alex Blumberg

Europe today feels like a far cry from the dream of Victor Hugo, from that exciting scene at the launch of the euro with the fireworks and the people talking about magic. Germans worry now that they are on the hook for bailing out a huge section of the continent. Half of Germans now think that the euro was bad for Germany.

Chana Joffe

And that question, whether or not the euro was a good idea, is on a lot of people's minds. It came up with Katarina in Athens.

Katarina Margaritu

Maybe it's better to go back to drachma.

Chana Joffe

The drachma is Greece's old currency. But this idea, at least to her, is a painful one.

Katarina Margaritu

I like this whole European family. I like to be a member of this family. We have exchanged ideas and culture all these years being together. I don't want to leave them. It's my family now. But I don't like their currency.

Alex Blumberg

In the effort to keep the family together there is one other thing that gets talked about all the time as the only real true solution. Create money. Get the European Central Bank to make a bunch of new euros, which the troubled countries of Europe could use to pay off their debts.

Chana Joffe

But the richest country in the club, the one that is calling all the shots right now, firmly does not want that. That country, of course, is Germany. Instead, Germany seems much more focused right now on fixing that old mistake, getting the rest of Europe to act more German, the way they wanted when the euro started.

Alex Blumberg

The European Central Bank has been making tentative steps in the money-creating direction. But a lot of people say small steps are not enough. They say, in other words, the only way out of this crisis may be for Germany to become even more like the rest of Europe, not the other way around.

Ira Glass

That was Alex Blumberg. He and Chana Joffe-Walt and Adam Davidson and Zoe Chace are all part of *Planet Money*, which is an economics reporting project of *ThisAmerican Life* and *NPR News*. Their podcast, where you can get reporting like this twice a week, and their blog, are at NPR.org/money.

[MUSIC - "LEARN FROM YOUR MISTAKES" BY JULIAN GASKELL]

Credits.

Ira Glass

Alex, you know you have come this far.

Alex Blumberg

Don't say it.

Ira Glass

Do the credits.

Alex Blumberg

All right! *This American Life* was produced today by me, Ben Calhoun, Sarah Koenig, Jonathan Menjivar, Lisa Pollak, Brian Reed, Robyn Semien, Alyssa Schipp, Nancy Updike, our senior producer is Julie Snyder. Seth Lind is our production manager. Emily Condon is our office manager. Production help from Mickey Meek and Matt Kilty. Scouting help from Elma Baker, music help from Damien Grave and Rob Geddes.

[ACKNOWLEDGEMENTS]

Our website, thisamericanlife.org. *This American Life* is distributed by Public Radio International. WBEZ management oversight from our boss, Mr. Torey Malatia, who I overheard talking with Chana about today's decision to hand the show over to me.

Chana Joffe

That's so crazy. It just sounds so crazy now. I mean I understand at the time that might have made sense, but it sounds crazy now.

Pascal Lamy

That's the definition. You just gave a very good definition of a mistake.

Alex Blumberg

Which is weird because when I asked him what it was like hearing me take over the show this is what he said to my face.

Katarina Margaritu

It was like the Manna from heaven.

Alex Blumberg

I'm Alex Blumberg. Come back next week for more stories of *This AmericanLife*.

Announcer

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