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The German Ethic and the European Spirit: can Germany guarantee the euro's stability?

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SUMMARY The euro crisis in the first half of 2010 was the source of lively debate in Europe over the stabilising or destabilising role played by Germany. On the one hand the financial markets saw Germany as a centre of stability because of its economic performance. On the other many observers criticised German procrastination that preceded the creation of the Financial Stability Facility and the Aid Plan for Greece. This debate came during a time of crisis that revealed major divergence, both economic and political, within the euro area. Essentially this meant economic divergence but also divergence with regard to the policy to adopt in the face of the crisis. This study examines the German position in the Greek crisis looking into what this reveals about Germany's relationship to the Economic and Monetary Union (EMU). It analyses the basis of the German economic "ethic" and the way it came to the fore during the crisis. Then it looks into the difficult position occupied by Germany between the "normalisation" of its European economic policy – which now reflects internal political issues as in other Member States – and a bid to take over leadership of the reform of European economic governance.

INTRODUCTION The euro crisis in the first half of 2010 was the source of extremely lively debate in Europe over the stabilising or destabilising role – depending on various points of view – that Germany was playing. On the one hand, the financial markets obviously saw Germany as a centre of stability – as seen in the German rates which again were the lowest in the euro area and a reference with regard to which differences in interest rates are calculated between Member States' public assets. This is due to the fact that the German economy seems in a much better state than its neighbours – with public debt and deficit under control, a substantial trade surplus, strong recovery, unemployment maintained at a low rate – Germany is the "good boy" whose past efforts are now being rewarded.

However many observers [2] have criticised German procrastination – and the return of a certain kind of national egotism – which preceded the creation of a Financial Stability Facility and the aid plan for Greece. Angela Merkel was accused of acting irresponsibly – ie of endangering the very existence of the euro solely

on the grounds of domestic policy (opposition on the part of the press and a major share of public opinion to the aid plan for Greece within an electoral context), before resigning herself to it at the very last minute and unwillingly in the face of her partners' insistence (including on the part of the American President) and the risk of the collapse of the stock markets.

This debate came at a time of crisis which revealed major divergence, both economic and political, within the euro area. Primarily this meant economic divergence: some euro area countries' public finances are experiencing great difficulty (Greece but also Spain, Portugal, Ireland and Italy) and/or the balance of their current account payments is in deficit reflecting excessive private debt and impaired competitiveness. This divergence has been fostered by the protection offered by the euro to the weakest economies (low interest rates that encouraged borrowing). Even the most integrated economies such as France and Germany have witnessed the divergence of their economies since the beginning of the noughties with France supporting household consumption whilst Germany

1. This article was originally prepared for an international seminar organised by the Canadian Centre for German and European Studies, the European Union Centre of Excellence (University of Montreal/McGill University) and the Centre for International Studies and Research at the University of Montreal on the occasion of the 20th anniversary of the unification of the Federal Republic of Germany from 29th September to 1st October at the Goethe Institut in Montreal. This seminar was called "History Repeating itself? European and International Repercussions of the German Reunification". For their invaluable comments the author thanks the participants in this seminar together with Thierry Chopin, Thorsten Kaeseber, Famke Krumbüller and Christophe Schramm.

2. See for example the interview given on 26th May by Jürgen Habermas to Die Zeit ("Wir brauchen Europa!" "We need Europe!").

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undertook a deflationist policy to the benefit of its exports. The result is clear: whilst the share of exports in the GDP was identical in both countries in 1997 (26-27%, in 2008 it was nearly twice as high in Germany (47.2%) than in France (26.1%).

However it was not just awareness of economic divergence that rocked the euro in the spring of 2010 thereby alarming the financial markets - it was also the acknowledgement of major political divergence. This focused on two issues that are vital to a Monetary Union such as the euro area: the existence of credible supervision - from a budgetary, but also from a banking and financial point of view - and an agreement on the degree of solidarity during a crisis to avoid contagion. In other words, this meant an agreement on best practices in the management of European public goods. But the Greek crisis however revealed some fundamental disagreements:

- disagreement on the method (intervention or not of the IMF - which, unlike Germany, France did not support - management by the Eurogroup or the European Council of the European economic policy);
- disagreement on budgetary solidarity (Germany did not want to bring the "no-bailout" [3] principle into question and yet rejected the idea of default by Greece whilst France asked for the establishment of a support fund that might provide loans and guarantees to Greece to avoid contagion);

- disagreement on the long term solutions:
 - I) with regard to political sanctions in the event of rules not being respected - Angela Merkel suggested that sanctions should extend to exclusion from the euro area, which France categorically rejected;
 - II) with regard to the reduction of macroeconomic imbalance internal to the euro area - with France suggesting that Germany contribute to the reduction of its trade surplus by supporting its domestic demand;
 - III) with regard to the creation of a European Monetary Fund that included a default mechanism - which Germany supports and with regard to which France is more reticent.

The aim of this article is to review the German position in the Greek crisis and what it reveals about Germany's relationship with the Economic and Monetary Union (EMU). To do this we shall review the basis of German economic "ethic" and the way this emerged in

the crisis. Then we shall examine the difficult position that Germany occupies between the "normalisation" of its European economic policy - which now reflects internal political issues as in other Member States - and an attempt to take over leadership of the reform of European economic governance.

1. THE GERMAN ECONOMIC "ETHIC": A CULTURE OF STABILITY UNDER TEST DURING THE CRISIS

A great amount of criticism was directed at Angela Merkel's management of the Greek crisis. This focuses on the lack of European solidarity on the part of the German Chancellor and her lack of awareness of economic interdependence within the euro area. This criticism does not however take into account the German elite and public opinion's extremely strong affection for a model that aims to protect macroeconomic stability and their fear of having to pay in fine for the mistakes made by their European partners.

a. The culture of abiding by the rules

More than any other Member State in the euro area Germany is attached to the definition and respect of economic rules. This can be explained by its specific historical heritage the review of which is useful because it continues to influence public opinion. In the 1920s Germany experienced hyperinflation that reduced German household savings to zero and precipitated a sharp rise in unemployment. The conflict over the reparations due after the First World War and Germany's inability to recover budgetary balance led to the dramatic episode of hyperinflation from 1922-1923: the value of the mark fell from 4.2 dollars before hyperinflation to 4200 billion marks per dollar on 20th November 1923. Stabilisation only came with the creation of a new currency, the Rentenmark, and the end of the monetization of the debt. According to economic historiography the explanation to the development of inflation in Germany between 1919 and 1923 can mainly be found in the accumulation of public deficits and agents' anticipation of the State's ability to recover budgetary balance [4]. In addition to this historiography stresses that the German boom in the second half of the 1920's was funded by fo-

3. The so-called "no-bailout" principle is laid out in article 125 of the Treaty on the Functioning of the European Union: "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project."

A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project."

4. Webb (1986) particularly insists on the role of budgetary decisions in the forecasts of inflation rates. The requirements associated with the payment of reparations, the occupation of the Ruhr and domestic political instability was bad news that led to an acceleration in inflation. However fiscal reform and the reduction of deficits then played a stabilising role over inflation forecasts.

reign borrowing that exposed Germany to the danger of a debt crisis in 1929. This then forced it to adopt a painful deflationist policy (undertaken by Chancellor Brüning) to restore the economy's competitiveness and also to recover the balance of current payments. This deflationist policy that pushed unemployment to record levels ended with the rise to power of Hitler who preferred to default on Germany's foreign debt in 1933.

These dramatic episodes in German history which have remained present in the memory and education of the German political and academic elite highlight the effects of inflation and also the risk that public debt and foreign debt represents for the country's economy and its political balance. This leads to an aversion on the part of the elites for policies that may destabilise the currency and this aversion is relayed more generally amongst the population by the press and the media. Monetary stability and its corollaries – particularly budgetary stability and the absence of a chronic trade deficit – was the Bundesbank's main goal after the war. Its success was a source of pride for the Germans, the Deutsche Mark (DM) thereby becoming the symbol of the German economic miracle and a reference for financial markets as well as for Germany's neighbours. This affection for the DM explains why the Economic and Monetary Union has never been popular in German opinion even though the euro was accepted through a "permissive consensus" [5] that was boosted by the reunification, the support of German export firms and Helmut Kohl's personal commitment [6].

The German culture for monetary stability was enhanced by the findings of economic analysis that were taken up in public debate by German economists, particularly university professors and economists at the Bundesbank who enjoy undeniable authority in German society. Economic analysis indeed showed that governments should resist the temptation offered by over accommodating fiscal or monetary policies (e.g. decreases in interest rates and the funding of public spending via borrowing). Indeed extra growth can be achieved short term by "inflation surprises": real interest rates that are sufficiently low lead to inflation that is higher than forecast whilst supporting growth. Likewise finance via borrowing leads to an

increase in public spending or a reduction in fiscal pressure which enables a temporary acceleration in growth. However these short term policies that can be politically worthwhile are not sustainable long term: an over accommodating monetary policy can lead to an inflationist spiral and a lax budgetary policy increases public debt. When it becomes clear that a u-turn has to be made with regard to these complaisant policies – the price to pay can be extremely high – a rise in rates and a reduction in the deficit lead to a contraction in growth and a potentially sharp rise in unemployment.

This context helps us understand Angela Merkel's and German opinion leaders' insistence on the respect of the Stability and Growth Pact rules, particularly the no-bailout rule and their reticence with regard to a support plan for Greece: from their point of view, this was the best way to defend European common interest and more particularly the stability of the euro, since the contrary would be tantamount to encouraging moral hazards, ie the non respect of the rules. As Angela Merkel recalled in an interview in "Le Monde", "in Germany's opinion this culture of stability or strength is not up for negotiation. [7]"

b. From Maastricht to Karlsruhe: the terms of German participation in the Economic and Monetary Union

During the negotiations on the Maastricht Treaty the attachment to rules emerged via a certain number of requirements set by Germany in exchange for giving up the DM and as conditions for entry into the euro area:

- the independence of the European Central Bank to isolate it from political pressure and the edict of a very low inflation target (2%);
- the creation of budgetary rules (firstly as part of the convergence criteria set for participation in the EMU then as part of the Stability and Growth Pact that was established with the Amsterdam Treaty: restriction of the public deficit to 3% and the public debt to 60%, budgetary balance mid-term, a ban on bailing out a Member State that defaults.

It is noteworthy that these requirements were not then defended as strongly by the German government. Whilst the requirements set by Germany with

5. This idea refers to the distant and depoliticized support of the parties, interest groups and more generally the German population in the face of how European integration works and the real way its institutions function.

6. An explanation that is often put forward about Germany's acceptance of giving up the mark is that the adoption of a common currency was a condition set by France for German reunification. However even though this argument matches reality (France's request for Germany to provide a guarantee with regard to its European commitment when it recovered its pre-war unity), it should not be overestimated. As Proissl recalls (2010), French President François Mitterrand knew that he could not prevent reunification whatever Germany's decision was about the Economic and Monetary Union.

7. Le Monde, 18th May 2010.

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regard to monetary policy were respected it was not the case with regard to the budget.

From the monetary policy point of view Germany remained intransigent with regard to the ECB's status and the inflation target. It has always refused that the heads of government might exercise pressure on the ECB and was reticent with regard to the further institutionalisation of the Eurogroup. It refused to define an exchange rate policy whilst the Council can do this within the framework of the treaties. From this point of view German influence was felt within the ECB in which the governor of the Bundesbank has traditionally defended an orthodox policy, ie a policy that aims to set inflation targets and enhance the credibility of the European monetary policy. Indeed the ECB's inflation target was systematically achieved across the entire euro area from 1998 and 2007. When in 2008 inflation was higher than the annual 2% threshold, notably because of the increase in the prices of raw materials the ECB responded by increasing its rates saying that it wanted to avoid a price/salary spiral (wage demand increases because of price rises but exacerbates inflation in its own right). The choice was highly questionable since the crisis had already started (it peaked six months later, ie the time it is generally believed to take for monetary policy decisions to produce their full impact on the economy) but it bears witness to the strength of the mandate given to the ECB as well as to the determination it showed in not giving in to external pressure, as it happens that exercised by the French president. One infringement of the original German requirements with regard to monetary matters should be pointed out: the ECB's decision in May 2010 to purchase Treasury bills on the secondary market from certain Member States that found themselves in difficulty was the source of controversy in Germany and even within the ECB on the part of Axel Weber, the Bundesbank's governor and candidate to succeed Jean-Claude Trichet as head of the ECB. The ECB was accused of having agreed to become a "bad bank" and of having given in to the pressure from the States contrary to its independent status. Unsurprisingly Germany has made the succession to Jean-Claude Trichet in the presidency of the ECB in October 2011 a priority this coming year.

As far as budgetary rules are concerned Germany's vigilance has been much less constant. Germany accepted a political compromise that allowed countries which did not respect the Maastricht convergence criteria to enter the EMU nevertheless on the grounds that they "tended" towards reaching them. This was the case with founding countries such as Italy and Belgium, and also Greece. On no account did these countries respect the criteria of having a debt below 60% of the GDP when they entered the euro area: the Italian and Belgian debt each totalled 113.7% of the GDP in 1999, the Greek debt 103.7% in 2001. Thereafter this criteria was respected less and less, with France and Germany rising above this threshold respectively in 2003 and 2002. On an even more serious note many countries repeatedly infringed the public deficit criteria without the Council ever deciding on sanctions: Greece, Italy, France, Germany, the Netherlands, Austria and Portugal. In these countries programmes for the return to balance of their public finances presented as excessive deficit procedures were regularly adjourned. These repeated infringements have highlighted the fact that too often other governments have given up exercising significant pressure in view of achieving budgetary adjustment in these countries. Moreover Germany's public deficit constantly rose beyond the 3% mark between 2002 and 2005. Chancellor Schröder then preferred negotiating a reform of the Stability and Growth Pact in March 2005 thereby relaxing the criteria [8], contrary to the opinion of the Bundesbank. However this surprising episode in the light of German attachment to the rules of the Stability and Growth Pact was followed by a return to balanced public finance. Before the crisis in 2007 and 2008 the German public deficit lay at zero.

As for the non bail out clause – that notably ensures that no government would be obliged to guarantee the public debt accumulated by other Member States – it was defended by the Constitutional Court of Karlsruhe as a condition for German participation in the EMU. In its decision of October 1993 on the Maastricht Treaty the Constitutional Court also defined "the goal of stability as a criterion of Monetary Union" [9] and suggested that Germany's participation was conditioned by this stability. In its decision of 30th June 2009 on the

8. Several points in the pact's rules were modified. Member States could now avoid an excessive debt procedure if they found themselves in a recession whilst until that time this exemption had only been granted to States hit by a severe crisis (GDP decline higher or equal to 2 percentage points). Moreover the decision to start an excessive deficit procedure would only be taken after the examination of a certain number of "pertinent factors" that were likely to lead to the suspension of the procedure and deadlines were extended.

9. Quoted in Proissl (2010), p. 21.

Lisbon Treaty the Court decreed that article 352 of the TFEU implies that any legislative measure that plans for new instruments in the Union's policies could be subject to a preclearance act adopted by the Bundestag and the Bundesrat. This means that any decision that aims to enhance budgetary solidarity between Member States will be submitted to clearance on the part of the German legislator and may possibly be brought before the Constitutional Court – for instance by university professors who may be against it.

In spite of the criticism it is subject to, the position of the Karlsruhe Constitutional Court is important because it enjoys great prestige on the part of German public opinion and the elites. It has also regularly rejected the acknowledgement of the superiority of community norms over the German Constitution. This is quite a different situation from that which prevails in a country such as France where if there is an incompatibility between the Constitution and community norms (as happened, for example, in 2008 when the Lisbon Treaty [10] was being ratified and in 2005 on the creation of the European Arrest Warrant [11]), the Constitution is modified by Parliament and the Senate which met together in Congress. On the contrary, the position of the German Constitutional Court implies that the German people will not accept a compromise with regard to values it deems fundamental [12]:

I) States' sovereignty (States being regarded as guardians of the Treaties);
II) the stability of the currency (protected by the non bail-out clause and the independence of the ECB);
III) the respect of German democracy (since the German people are not represented fairly in the European Parliament – according to the Court – which is admittedly not entirely wrong even though the composition of the Parliament reflects a compromise between the representation of the populations and that of the Member States [13]).

From this point of view not only does the Constitutional Court represent a certain vision of a desirable economic policy but also a political ethic that is based on a balance between rules and democracy. It is probable that its positions and the legal risk associated with the likelihood that a case might be submitted to it and its jurisprudence will be now be taken into account in Brussels. They may comprise for instance a strategic

argument for the German government, from fear of seeing a decision accepted in Brussels but challenged in Karlsruhe. In the case of the negotiations on the aid plan for Greece the danger of this being challenged by the Constitutional Court of Karlsruhe in the name of an infringement of the no-bailout clause clearly played an important role in the Chancellery's argument and the German position. This is notably why Angela Merkel insisted that the aid plan should be considered only as a last resort. However the Constitutional Court delivered a new decision in August 2010 that moderates its own decisions of 2009 [14].

c. The noughties' compromise: supporting exports with a deflationist policy to safeguard employment

German economic culture and the positioning that results from this in the debate over the Greek crisis are marked by the compromise that was accepted at the beginning of the noughties by the German unions as part of the 2010 Agenda along the following lines:

I) reduction in wages – combined with modified taxation that aimed to reduce the cost of labour (reduction in social charges compensated by a rise in VAT);
II) the adaptation of the social protection system (pensions and health insurance);
III) a series of reforms that aim to make the labour market more flexible (Hartz reforms adopted between 2003 and 2005).

This compromise aimed to reduce unemployment by encouraging German companies to remain in Germany and to export. This was an attempt to absorb the over-valuation of the DM at the time of Germany's entry into the EMU and to reduce significantly high unemployment inherited from reunification.

Effectively this model enabled Germany to accumulate a substantial trade surplus and to bring the unemployment rate below the 8% mark including during the crisis. However it was not a cure-all either in that German growth was weak during the noughties (1.5% on average from 2000 to 2007); it was even the weakest in the euro area Italy apart. Germany was seriously affected by the decline in world trade, with its GDP contracting by 4.9% in 2009. In addition to this the German strategy was not copied by its neighbours, which led to major internal macro-

10. Constitutional Law n° 2008-103 4th February 2008 modifying title XV of the Constitution.

11. Constitutional Law n° 2003-267 of 25th March 2003 completing article 88-2 of the Constitution, a necessary preamble for the transposition of the framework decision relative to the European arrest warrant and surrender procedures between Member States.

12. The Constitutional Court has never found that a European Treaty was incompatible with the Fundamental Law but it set limits on the German government with regard to the degree of European integration and the participation of the German legislator in the integration process. The decision of the Karlsruhe Constitutional Court dated 30th June 2009 declared the Lisbon Treaty compatible with the Fundamental law but with certain caveats. In particular this meant the laws accompanying the Treaty's ratification which determined the Bundestag and Bundesrat's participation in the writing of European legislation - these were deemed incompatible with the Fundamental Law because of inadequate participation rights given to German legislators. They were modified after this decision.

13. With regard to this see Chopin and Jamet (2007)

14. <http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg10-069en.html>

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economic imbalance in the euro area. Most of Germany's trade surplus is made within the euro area: whilst support for consumption in the neighbouring countries benefited German exports, weak domestic demand in Germany limited imports from other Member States.

The quest for a common strategy in Europe is made more difficult by the divergence between Member States. Franco-German divergence is all the more cause for concern because France and Germany have been the historic engine in European integration due to the symbolic importance of their reconciliation and also to their demographic, economic and political weight within the Union. Since the beginning of the noughties France and Germany have followed opposite paths in spite of the interdependence of their economies. In particular French growth was supported by household consumption whilst German growth depended on the growing role of its foreign trade. This divergence between the drivers of growth on either side of the Rhine is the result of diverging economic policy choices: support for demand in France and reduction of labour costs in Germany. This divergence modified the structure of the two countries' economies thereby leading to different political incentives. Criticism addressed by French Economy Minister, Christine Lagarde [15], with regard to the German trade surplus, were perceived particularly badly in Germany, and the Chancellery immediately responded saying that it was absurd to accuse Germany of being too competitive and that its neighbours should follow the same path and consent to making the same efforts. The debate over internal imbalances in the euro area is a difficult one, notably because German economic strategy is linked to the ethic of work and the acknowledgement of results achieved by Germany with regard to employment and trade surplus [16]. Seen like this Germany is competitive because its workers have accepted to tighten their belts and it is therefore out of the question for it to pay for the incapacity of its neighbours to accept the same investment and make similar strategic choices.

15. Interview with Christine Lagarde in the *Financial Times* dated Monday 15th March.

16. This criticism also bears witness to the fear of economic imbalance between France and Germany which returns regularly on both sides of the Franco-German relationship.

d. German ethic versus the Greek lie

This economic ethic and the national consensus that goes with it help us understand the German reaction

better in the context of the Greek crisis, notably from a moral point of view.

Indeed the Greek crisis led to sharp response on the part of the German elite and the population and this focused on the following arguments:

- the Greek State lied about the state of its public finance, primarily to facilitate its entry into the EMU, then to respect in all appearance the criteria of the Stability and Growth Pact. From the German point of view Greece infringed the rules that are the base of the European contract;
- the risk of Greece defaulting destabilised the euro leading to a fear of contagion thereby endangering the fundamental element of German economic culture – monetary stability – and causing regret over the DM amongst the German population. It was also a reminder of the trauma caused by the relinquishment of the DM;
- Greece witnessed a decline in its competitiveness due to the unjustified inflation of its wage bill which was not matched by a rise in productivity. This decline was attributed by some German media to institutions they describe as corrupt and to an alleged lack of work ethic in contrast with the German model;
- Greece lived from a general point of view on credit at interest rates that were far too low enjoying the same interest rates as Germany whilst inflation was higher there.

Hence Greece appeared – notably in the press – to epitomize what Germany feared to see happen with the entry of southern countries into the euro area. The relinquishment of its currency made it dependent on spendthrift States living on credit and delivered it into the hands of vote-catching, even corrupt or deceitful governments. Moreover, German citizens had no influence over the budgets of States which did not respect the collective rules. If we add to this the effort the Germans consented to make from a domestic point of view, notably with regard to wages and taxes, or within the context of the German contribution to the European budget – Germany has the highest net contribution of all Member States in absolute terms – it is not surprising that there was a violent response. Who would like to show solidarity towards a State that did not respect the collective rules whilst personally major sacrifices have been made? Indeed

aid to Greece was extremely unpopular amongst the German population which considers the Greek government as being responsible for this crisis [17] and rejects the creation of a "transfer union". The Greek crisis thereby revived debate in the German public opinion similar to that caused by the reunification and the inequality of economic development between the Länder. These debates are particular to any federal organisation: they raise the issue of domestic solidarity and the good use of public funds in this context. They therefore raise the issue of living together that is the basis of any political community. From this point of view the rifts created within the Union, particularly in Germany, by the Greek crisis are not encouraging for the development of a European political community which extends beyond the mere institutional framework. In this context, it is no surprise that one can witness a trend towards the enhancement of the intergovernmental nature in managing European affairs and towards a refocusing of Germany's European economic policy with regard to the defence of its own interests.

2. GERMANY'S EUROPEAN POLICY IN THE ECONOMIC SECTOR: NORMALISATION OR LEADERSHIP?

Although in the German opinion Greece's public finance crisis and those of countries that were disdainfully qualified as "PIIGS" (Portugal, Italy, Ireland, Greece, Spain) was an infringement of the European contract and an unacceptable situation in contrast with their ethic and their economic model, this is only one explanation of the German government's behaviour and procrastination [18] when negotiations were underway over the support plan for Greece. The political shaping of this ethic in a German electoral context reveals a new view of its participation in the "European concert". National interests could now clearly be pinpointed and defended sometimes at the expense of a certain amount of hypocrisy: Germany was trying to stand as the model pupil in the face of more indulgent economic policies employed by its partners but without admitting to its own weaknesses notably those of its banks. However it is in this context of normalisation and renationalisation of Germany's Eu-

ropean policy that the latter has to assume de facto leadership over the European economy.

a. National interest and European interest: the normalisation of the German position in the light of the economic crisis

Traditionally Member States defend their national interests within the Council. This is a "normal" situation in that national governments are then responsible for the positions they adopt, relayed by the media to their public opinion and possibly sanctioned in electoral periods. Governments are exposed to the pressure of specific national interests particularly in the business environment. In addition to this, governments are not the only ones exposed to national influence: MEPs are also affected according to their native Member State. Moreover national governments contribute alongside the lobbies to the organisation of this strategy of national influence within the European Parliament. Finally it is noteworthy that Member States' influence in European decisions increased during the crisis with the Council superseding the Commission.

Until the end of the past century however Germany occupied an original position in the European arena. European affairs were the subject of a transpartisan consensus in favour of integration (Konsenspolitik). Nevertheless this position evolved with the governments of Gerhard Schröder and Angela Merkel; neither had experienced the war and their relations with their French counterparts were more difficult. German politicians – except for Finance Minister, Wolfgang Schäuble – are now more indifferent of the European project and Angela Merkel does not have a clear, ambitious project for Europe. The German position in Brussels is now more influenced by the country's national interests bearing witness to a certain "normalisation" of Germany's European policy. This has been seen for example in the area of energy (where the emphasis has been put on the security of supplies via a rapprochement with Russia, the end of the Areva/Siemens relationship, German industry lobbying during the negotiations over the Energy/Climate Package with a view to reducing its ambitions). Incidentally this is the portfolio that Germany negotiated and obtained within the Commission. The "normalisation" of Germany's European policy also emerged in the ne-

17. On this point see the IFOP poll, "Les Européens face à la crise grecque – Résultats détaillés", (Europeans and the Greek Crisis – Detailed Results). A study undertaken for the Foundation for Political Innovation, June 2010. This survey was undertaken in March 2010.

18. 15 months went by between February 2009, when the then Finance Minister, Peer Steinbrück mentioned -for the first time - the possibility of an aid plan and the agreement of 9th May 2010.

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gotiations on the 2007-2013 financial perspectives; the German government wanted to limit Germany's net contribution to the community budget and consequently lent specific attention to the financial impact of European policies.

During the Greek crisis, the consideration of national interest emerged in two ways. Firstly via Angela Merkel's behaviour – she played for time as the major electoral day drew closer in North Rhine Westphalia, since the majority in the Bundesrat was in the balance. The Greek crisis was the focus of the electoral campaign given how unpopular the aid plan to Greece was in public opinion and in the eyes of Merkel's Liberal FDP partners within the government coalition. The Greek crisis made the headlines of the German tabloids which denounced Germany's role of "Zahlmeister" (paymaster) [19] and estimated that the German taxpayer after paying for the excesses of the financial sector now had to pay for the errors of others if the German government gave in to Brussels. Hence Angela Merkel and her government witness a sharp decline in their satisfaction rates in the polls after the stabilisation plan of 750 billion euros was accepted.

The second point with regard to the consideration of national interest was not so evident: the protection of German banks' interests. The latter, particularly the Landesbanken – had been weakened by the financial crisis of 2007-2008 and ever since had comprised a major risk for German economic stability. The support that the German government then had to provide was extremely unpopular with public opinion. But the German banks were particularly vulnerable in Greece where they had agreed to provide major loans (to the State, businesses and households alike). In this context the hypothesis of Greek default was extremely dangerous for German banks which now saw this in an extremely unfavourable light. Rather than admit to the excessive risks taken by German banks in Greece and in a certain number of other countries in the south of Europe the German government preferred to request draconian stabilisation efforts on the part of Greece and maintain opaqueness with regard to the vulnerability of German banks. Hence the German government at first refused for the latter to be submitted to "stress tests" then refused that these stress tests, which were finally undertaken and

made public at the beginning of the summer of 2010, take into account the exposure to sovereign risk. By refusing a Greek default – even in part – then finally accepting, apparently under constraint – the aid plan for Greece, Angela Merkel did indeed provide indirect support to the German banks, the source of heavy lobbying, helping them avoid major losses and the need for additional recapitalisation by the State which would have been extremely unpopular.

Highlighting the role played by national interest in German policy during the Greek crisis allows us to relativise the image created by the German government and the press of a virtuous country refusing to pay for mistakes made by others. From this point of view there was a major contradiction in German policy during the crisis between extreme prudence with regard to the banks – whose real situation remained masked – contrasting sharply with the virulent censure of the excesses of the financial markets and the errors made by States suffering a budgetary crisis.

At the same time the "renationalisation" of Germany's European policy must not be exaggerated. It happened at a time of disenchantment with the European project in Germany. Only 30% of Germans think that the euro has more advantages than disadvantages [20]. However the German political elite mainly remains aware of the advantages the country draws from the euro area particularly as part of a strategy that is oriented to exports. Moreover German public opinion mainly believes (52%) that Europe is the level at which the crisis should be resolved contrary to what has been seen in countries such as France, Italy, Spain and the UK where citizens prefer national solutions [21].

b. Guaranteeing the euro's stability: the German vision of the future of European economic governance

In the wake of the Greek crisis when she was criticised from all sides – both by those who were against the very principle of an aid plan for Greece and by those who believe that by procrastinating at length she weakened the euro and increased the cost of saving Greece – Angela Merkel had an opportunity to take up the initiative again [22] in the context of the adoption of the new economic governance rules. Un-

19. 25th March 2010, Bild's headlines were "Nie wieder Zahlmeister Europas!" (Never again Europe's paymaster!)

20. According to an ARD poll – DeutschlandTREND published in April 2010, quoted in Schwarzer (2010). See also the poll by the German Marshall Fund in June 2010 which indicates that 53 % of Germans believe that the euro was a bad thing for their economy (Transatlantic trends 2010, http://www.gmfus.org/trends/doc/2010_English_Key.pdf).

21. IFOP, Op. cit. and Seidendorf (2010).

22. Indeed the German Chancellor gave the impression that she had lost the initiative during negotiations at the beginning of May 2009. The French president presented the agreement of 9th May 2010 as a French victory over German reticence. In addition to this, the German press was quick to present the negotiation result as German capitulation.

surprisingly it was towards enhancing macro-economic surveillance that the German position leaned most. On this point both France and Germany presented joint propositions [23], aiming for "the application of sanctions based on rules" [24]. These proposals involve the establishment of rules of internal law that guarantee the recovery of balance in public finance (according to the model of the constitutional rule with which Germany has provided itself [25]), a "European Semester" in view of allowing an opinion on the part of the Commission over national budgets, surveillance extended to divergences in competitiveness, private debt, financial stability and finally greater transparency of accounts and statistics. From the sanctions point of view the Franco-German proposal insists on hitting where it hurts by imposing an interest bearing deposit on States which are subject to an excessive deficit procedure – which would be stepped up – thereby making it possible to stop paying structural funds to States that do not respect common budgetary rules. This proposal does however include political sanctions in the shape of a withdrawal of a Member State's right to vote in the Council if the former infringes seriously and repeatedly common commitments.

However France and Germany do disagree on several points. For example France has refused to consider the possibility of excluding a Member State from the euro area, a mechanism that was put forward by Angela Merkel to the Bundestag in March 2010. France believes that Germany adopted an austerity plan too early [26] since its public finances would have allowed it to continue recovery work to the benefit of the entire euro area. French and German political leaders also disagree on the style of governance. Here it is not just a personal issue it is also a question of culture and politico-administrative organisation. The politico-administrative decision making process can be quicker in France because it is extremely hierarchical in nature, since the Head of State is the final arbiter on the most important issues. Matters move more slowly in the German federal system in which the Chancellor plays a role of mediator between several diverging points of view.

In addition to this the French government wanted to strengthen the Eurogroup in view of having a decision making body comprising heads of government of EMU

Member States. This is not looked upon favourably by the German government for two main reasons. Firstly Germany feels relatively isolated within the euro area in the face of France: the biggest countries in the euro area apart from France and Germany are Italy and Spain whose interests do not lie in a firm stance with regard to public finance given the poor state of their own situation. Germany runs less of a risk of being isolated within the 27 because Scandinavian support and that of several countries in Central Europe and also with regard to several subjects on the part of the UK (particularly with regard to the European budget) helps it form wider coalitions. The second reason is not a new one: the German government fears that the Eurogroup will be transformed – notably by France – into a instrument to exercise pressure on the ECB. Until now Germany has always won on this point.

The proposals which will be presented this autumn by the working group steered by Herman Van Rompuy will show whether the requests made by the German government in view reinforcing surveillance within the EMU have been met. It is certain that Angela Merkel is counting on this to reassure her public opinion after accepting the aid plan for Greece.

That Germany should assume leadership to guarantee the stability of the euro is undeniable because of its economic weight and its role as a gauge for the other economies in the euro area. However the Greek crisis has shown how difficult it is to take this role on. Indeed it means making the requirements of credible control compatible – in line with German economic ethic – with budgetary solidarity in times of crisis – solidarity that the German elites, press and public opinion are reticent about. The Greek crisis was the source of great concern due to the German government's procrastination. These concerns must not however be exaggerated: German public opinion is mainly attached to European unity and yet at the same time it is anxious to protect a culture of stability that defines its economic ethic.

The question that this role raises involves the feasibility and opportunity for other Member States to adopt

23. A Franco-German paper presented on the initiative of Wolfgang Schäuble and Christine Lagarde in July 2010 (www.economie.gouv.fr/actus/pdf/100721franco-allemand.pdf).

24. This is well summarised by Daniela Schwarzer: "a rules-based approach based on nominal targets and sanctioning mechanisms, a low degree of risk sharing and very little political discretion."

25. This rule forbids the public deficit to rise beyond 0.35% of the GDP economic effects apart as from 2016 on for the Federal State and from 2020 on for the Länder.

26. The German government indeed adopted economic measures to a total of 80 billion €.

27. Interview with Jean-Claude Trichet in the Figaro ("Les pays de la zone euro doivent faire des efforts" – "The countries in the euro area have to make an effort"), 3rd September 2010.

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a model close to that employed by the Germans or at least an ethic that falls in line with it. From now on the financial markets are encouraging the other Member States to stabilise their public finances. The ECB has invited them to follow the German example in terms of structural reform [27]. The Lisbon Treaty describes the European economy as a "social market economy", originally a German idea (Soziale Marktwirtschaft) and the French government is explicitly planning to align French fiscality with that of Germany. Nevertheless the adoption of the German model by the euro area, although it might be a factor of stability for the

euro – will not provide a miracle remedy, as seen in weak German growth over the last few years. Also it is really not evident that a deflationist policy oriented to exports will meet the approval of public opinion amongst all Member States.

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