

Settling the Bill: Germany's Debts to Its European Family

Description

By **Mark Vail**, Associate Professor at Tulane University and Guest Professor at the University of Duisburg-Essen in July 2014

Der Autor geht hart mit Deutschland ins Gericht. Er erinnert an die jetzige Verantwortung gegenüber der EU, die sich auch aus den deutschen EU-Vorteilen der Vergangenheit ergibt.

It has become a commonplace that the Euro crisis has put Germany's ambivalent position in Europe into stark relief. Since the country's reunification in 1990, Germany has become the unquestioning economic powerhouse of Europe, its largest and most internationally competitive economy and the best performer among Eurozone countries. With a brief interlude after the 2008 economic crisis, German growth has generally exceeded the Eurozone average and unemployment has remained low (5.4% in 2013, compared to an EU average of around 12%). In much the same way that the EU benefitted Germany politically during the post-war period, restoring its international credibility by firmly anchoring German power to European institutions, European Economic and Monetary Union (EMU), initially a hard sell to German voters reluctant to give up their cherished Deutsche Mark, has been good to Germany economically. By acting as an implicit subsidy to German exports, the undervalued euro (relative to the imputed exchange rates between the D-Mark and other currencies) has made such goods cheaper in the foreign markets on which Germany depends. For the first six post-war decades, then, Germany needed Europe, and Europe delivered both economic and political returns.

The post-2008 context, with the seemingly intractable Euro crisis (billed commonly but erroneously as a "sovereign debt crisis," rather than a crisis of structural imbalances between high-value exporters such as Germany and the European periphery) and growing fears about a Japanese-style deflationary spiral, has largely reversed this relationship. Germany, long a beneficiary of European institutions, now is being asked to repay some of its debt by contributing the largest share of funds to support countries whose

nationalization of bank debt (much of which, incidentally, is held by German banks) has left them on the verge of insolvency, and by allowing its neighbors to begin to grow out of debt by accepting slightly higher inflation. Germany's commitment to austerity and monetarism, its almost pathological fear of inflation (which is nowhere to be seen but always viewed by Germans as just around the corner), and its apparent unwillingness to accept a euro that departs from these assumptions, reflects its reluctance to pay the tab. At the same time, however, Germany has shown itself willing to spend money for domestic purposes; its 2008-2009 Keynesian stimulus package which, at around 3.5% of GDP, was among the largest among G-20 nations, and the agreement underpinning the current CDU-SPD Grand Coalition called for increased spending on education and infrastructure. But, as Jürgen W. Falter, a professor of political science at Johannes Gutenberg University in Mainz, has wryly observed, "The Germans say to themselves, 'We are a family, and the other Europeans are distant relatives'. In a family, you stand together; distant relatives, you help when you can."

It has become increasingly clear that the future of EMU, and perhaps of the EU itself, depends upon Germany's acceptance of a somewhat different euro than it had first envisioned, and, relatedly, on its willingness to view the EU as a family, if a fractious and dysfunctional one. This in turn means Germany's acceptance of both political and economic leadership of the continent. As Mark Mazower recently observed in the *Financial Times*, however, this is far from an easy burden for the German political class to shoulder: "Neither the Germans themselves nor anyone else seem very comfortable with this [role]. Yet Berlin's primacy is a reality that cannot be wished away. The challenge is to figure out how to make it beneficial for everyone."

Indeed. Just as Germany needed Europe for most of the post-war period, Europe now needs Germany. It is far from clear, however, that Germany, preoccupied with its own economic fortunes, will answer the call. Unfortunately, the recent success in the 2014 European Parliamentary elections of far-Right parties, many of whom were able to translate voters' anger at the opaqueness of the bureaucracy in Brussels and the economic pain and social dislocation that austerity has left in its wake into success at the polls, shows that the stakes are high; both the future of the EU and the stability of national democracies are in play. Like it or not, Germany is part of Europe and has it within its control to shape the European future. It is up to German officials what kind of role this will be, but it cannot ignore the choice. The next few years will show whether Germany can

recommit to its European family.

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