

# Germany as Saviour or Demon: Political Risk in the Eurozone and the Burden of History

William Leiss (9 December 2011)

## *Introductory Note:*

These reflections were inspired by the insightful article published on December 6 in *Spiegel Online*, “A controversial paragon: Europe shudders at Germany’s new-found power”: <http://www.spiegel.de/international/europe/o,1518,801982,00.html>. See also (1) the opinion column by Jakob Augstein, “The return of the ugly Germans: Merkel is leading the country into isolation:” 8 December: <http://www.spiegel.de/international/europe/o,1518,802591,00.html> and (2) Christoph Schult, “Summit advice: How about a little humility, Frau Merkel?” 8 December: <http://www.spiegel.de/international/europe/o,1518,802515,00.html>.

The sheer scale of the irony now playing out on the European continent is mind-boggling. The first phase of the Eurozone crisis is just about over and the second – marked by the German-French alliance’s proposal for a dramatic upgrade in fiscal integration of at least some subset of the EU’s national economies – is about to begin. Almost certainly the practical implementation of this new strategy will set the nations who sign up for it on a one-way street: The external oversight and self-discipline for national budgets that will be required to halt the euro’s downward slide toward destruction will lead, step by step, to a deeper functional unity, first in fiscal matters and later in other institutions.

*If* the financial markets can be persuaded to accept it as a viable long-term strategy, they will do so only with a highly sceptical mindset. Those markets will be alert to any hints of backsliding, playing for time, or fakery in the national accounts, and undoubtedly they will punish the malingerers severely should they find evidence of the same.

As the marvellous *Spiegel Online* article shows, Germany appears to have won over the French – not just Sarkozy, but much of the French decision-making élite more widely – to its concept of long-term financial and economic health. In a speech in November Sarkozy said: “All my efforts are directed towards adapting France to a system that works. The German system.” In fact, as of now, Germany stands alone as the one and only model for all of the Eurozone (and indeed EU) economies. Thus 66 years after France and the rest looked around, in the Summer of 1945, at the immense destruction, loss of life, and raw memories of the unimaginable savageries perpetrated on them by their German neighbours, are they about to say: “We are all Germans now”?

One of the smaller ironies for the French was the news, just this past week, that German police were raiding the homes of the last surviving members of the SS unit that carried

out the notorious massacre at the village of Oradour-sur-Glane on 10 June 1944: There were only two survivors (out of almost 700 men, women, and children); the French have never rebuilt the town (<http://www.oradour.info/>), leaving it as a memorial to those who died there. After all this time, the German police apparently were looking for evidence of their complicity in that shameful episode.

But ironies abound. Who in 1945 could have imagined that in 2011 the Foreign Minister of Poland – a country which suffered so terribly during the Nazi occupation – would give a speech in Berlin in which he said: “I’m less worried about Germany’s power than about its failure to act. It has become Europe’s essential nation. It must not fail in its leadership.” (See also the *New York Times* article, December 9, “Europe’s debt crisis brings two former foes closer than ever”: <http://tinyurl.com/7j66llw>.)

Meanwhile, in the nation whose citizens have been ordered to impose upon themselves the harshest “austerity” measures to date – Greece – Germany’s presumed role in dictating the bitter medicine they are being forced to swallow is palpable to them. (In both Dublin and Athens, the EU bureaucrats who have been sent in to oversee these measures are referred to by the natives as “the Germans,” no matter what their actual nationalities happen to be.) Their memories of the harsh Nazi occupation in 1941-44 are still easily recalled. So most Greeks will not be joining in the chorus of, “We are all Germans now.” But could this too change?

As it battles for its fiscal health the EU will arrive at a crossroads, perhaps in one year, or two, or longer. Persisting along the straight and narrow path – that is, emulating the German model – could, if all goes well, allow citizens of Europe to see with sufficient clarity through the chill winds of austerity to a better and stable collective future. But in traversing this path they will come upon alternative turnings from time to time. Taking some of those turnings will mean rejecting the medicines they are now being offered and digging in their heels, resisting the restructurings of employment patterns, pension and retirement schemes, and (to some extent) the welfare benefits they now enjoy but cannot really afford. There will be strong temptations – already on view in Greece – for citizens and public officials to seek to thwart the application of austerity measures through sabotage and noncooperation.

They may even try to ignore their budgetary targets, but they will not be able to conceal their noncooperation, as before, by faking the national accounts. What is perhaps even worse, at the political level they may try very hard to cooperate but be unable to do so, because the institutional changes that are presupposed in the austerity targets simply cannot be carried out in the necessary time-frames. This is the scenario described in a very recent OECD report (*Spiegel Online*, 8 December, “OECD report questions Greece’s ability to reform”: <http://www.spiegel.de/international/europe/o,1518,802514,00.html>.) Should this scenario play out, punishments may arrive from the North (because citizens

there will demand this of their governments), and national bankruptcies will loom, leading to full-blown social crises. It is impossible to forecast how that might all end.

In short, there are enormous political risks inherent in Europe's present situation. Much of the pathetic, fumbling search for pseudo-solutions during the last two years has been designed to avoid entering deeply into the zone of political risk by confronting the need for radical changes to the EU institutions. For example, if national referendums are required to ratify such changes, will the necessary approval be given? To take the case of Ireland, it was the national government there which made the catastrophic mistake of nationalizing 100% of the debt of its private banks. The money that enabled them to do so, when their sovereign debt could no longer be financed through the markets, came from the EU. Will the Irish citizens, knowing how long it will take them to dig themselves out from under this monumental blunder, perhaps conveniently forget how this mess was made and take out their grievances on the EU?

The risk will have to be run, because the earlier strategy is broken. There will be no quick fix, as Merkel sees clearly, and it is impossible to say how much time will be required; but all the while the financial markets will have Europe's politicians on a very short leash.

It's far too simplistic to "blame the markets." This is entirely the politicians' own fault, because in the long run-up to the 2008 crisis they had been fiddling while their bankers stuffed their huge businesses with combustible materials. European politicians watched from the sidelines as the Irish and Spanish housing bubbles expanded; they allowed their banks to bulk up on toxic assets from the US subprime mortgage assembly-line; they acceded by default to the weakening of international regulatory regimes that was pushed by US and UK interests; they allowed their banks to accumulate large portfolios of sovereign debt instruments on the theory that they were "risk-free"; they turned a blind eye to the Greeks' blatant lies about their budgetary deficits; and so on. A slice of these depressing stories is told in Michael Lewis's inimitable and entertaining style in his latest book, *Boomerang: Travels in the new third world* (New York: Norton, 2011).

The latest German-and-French-led initiatives are a hopeful sign, but there is no guarantee that they will succeed in staunching the bleeding in the Eurozone. The risk of political disintegration in the EU will remain high for some time to come. But if it works in the end, with Germany leading the way to a brighter collective future, would this not be the supreme irony, after all that happened in the preceding century?

#### *Author's Note:*

My personal interest in Germany's role in the burden of history in Europe is dictated in part by the fact that I am of German ancestry, and in part by my long apprenticeship with Herbert Marcuse. I have discussed this autobiographical background, including reflections on Marcuse and Heidegger, in a recent interview, available at: <http://www.ctheory.net/articles.aspx?id=690>.