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Germany and the Euro Crisis: The Long Shadow of History

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A spectre is haunting Europe – the spectre of the Euro crisis. All the powers of Europe want to exorcise this spectre; but how to accomplish that task is a source of great controversy. For two years now, the member states of the European Union have been dealing with a loss of confidence in the ability of certain Euro countries to pay their debts. It not only affects the economic sphere but has repercussions on politics as well. Several countries' governments have changed as a direct consequence of the economic crisis. Now France has a new president, the Socialist François Holland who replaced Nicolas Sarkozy. This, in turn, has immediate consequences for Europe. "Merkozy" is no longer and one pertinent lesson of history imposes itself: if the Franco-German engine is stuttering, the European project will not move forward. It remains to be seen if the two leaders will soon find a *modus vivendi* that will allow them to tackle the serious issues related to the Euro crisis.

As this crisis is dragging on and as more and more countries are losing their triple-A ratings, one country in particular is standing out and is experiencing what is sometimes referred to as a new *Wirtschaftswunder*. Indeed, Germany has performed rather well over the past few years. Unemployment is constantly dropping, exports are booming (having just surpassed the 1 trillion Euro benchmark in 2011), and the interest rate for federal bonds is at a low. It is not surprising, thus, that many Europeans and politicians beyond Europe look to Germany, and its Chancellor Angela Merkel, to lead the way out of the crisis. So far, however, Berlin seems to be reluctant to develop an overall strategy out of the misery that finds approval from other Euro partners, too. Rather, hesitation, plans about strict austerity coupled with a Fiscal Pact, and unqualified calls for a "Europe which would speak German now" (by Volker Kauder, the leader of the Christian-Conservative party group in the Bundestag) have revived images of the nasty German and of the Second World War in many countries all over Europe. Why does German Euro policy seem flawed at the moment? What motives direct it? Finally, what is the historical context against which German Euro policy can be understood?

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The beginnings of the German relationship with the European idea were a dictate of reason for most people, and only a matter of conviction for a few. The Federal Republic of Germany emerged beaten, demoralised, occupied and destroyed from the Second World War and was no longer a subject but only an object of international politics. It had been stripped of parts of its industry, territory and almost all of its sovereignty. One of the few options through which to regain sovereignty was through European cooperation. Indeed, the "Pan-European" ideas of Count Coudenhove-Kalergi and other plans for European integration were perceived to be the only way out of Europe's history of wars. The foundation stone for the first phase towards an integrated and united Europe was laid in the economic field: the Marshall Plan, included West Germany, and forced the Europeans to coordinate their economic reconstruction. A network of contacts beyond the national borders was established that was useful in establishing the first pillars of the European project. Through European integration, so statesmen such as Robert Schumann, Jean Monnet, and Konrad Adenauer thought, peace in Europe could finally be achieved and secured. In order to control West Germany's economic reconstruction – and especially the strategically important mining of coal and production of steel – the European Coal and Steel Community (ECSC) was founded in 1951 as a supranational entity that gathered West Germany, France, the Benelux countries and Italy. Coal and steel production was to be coordinated and a common market for those goods was created. While it is easily understandable why the five other European nations would join such a project, to maintain peace by keeping an eye and check on West Germany's strategic industry, what was in this project that appealed to the West Germans? For Chancellor Konrad Adenauer, it was quite clear that the only way back to a normalisation of West Germany's role in Europe, would be through reconciliation with the wartime enemies, especially France. That goal could best be achieved through trust building and cooperation. Moreover, it was the only way to regain some of the control over the strategically important coal and steel industry. The ECSC proved to be successful and in 1957 the Six extended their cooperation to creating a customs union and a common market, through the European Economic Community (EEC), and to cooperating in the field of nuclear energy, through the European Atomic Energy Community (Euratom).

The integration of European markets, and the heightened demand for German goods, further fuelled the West German economy's boom, the *Wirtschaftswunder*. For a devastated country and people, that was the pariah of the international realm and devoid of all sources of national pride, economic success was to become an inspiration; and West Germans progressively defined themselves and their country through economic strength. In the late 1950s, the Federal Republic was one of the leading global economies again and this success story became symbolised and romanticised in the German currency. The Deutschmark had the (partly mystical) reputation of a strong and hard currency (at least in comparison with other currencies) which was guaranteed by a politically independent central bank, the Bundesbank. Soon also this institution became glorified as a guarantor of economic success, stability and pride. This triangle of a strong, export-led economy, a hard currency and a powerful central bank became the basis upon which the West German identity could be rebuilt and a new patriotism could be centred upon. It heavily influences German self-perceptions until today.

Germany and the Bundesbank are often criticised for overemphasizing the prevention of inflation. Once again, however, it is necessary to look at the historical experience Germans had with inflation to understand why this notion is still so important today. Several times over the past century, the Germans have experienced that their money lost its value. The most obvious example of course is the great inflation in the 1920s when one had to pay billions of Mark for a loaf of bread. But also the loss of value of the Reichsmark after 1945, which was replaced by a shadow currency of cigarettes and other means of barter, entered the collective memory of the Germans. Then again, in 1990, the East German Mark was abolished in exchange for the Deutschmark in the former German Democratic Republic. All of this contributed to a feeling of uncertainty that could only be overcome by the myth of the Deutschmark, as a strong, hard

and valuable currency. The plan to exchange that symbol of post-World War II recovery against a common European currency (the Euro) was difficult to sell to the German electorate and it was the price the country had to pay for reunification. Resentment regarding the Euro could only be dispelled by the promise that the new European Central Bank (ECB) would be modelled after the Bundesbank. The German expectations in the new currency, thus, continued to be centred upon the wish for a low inflation, a strong currency and continuing economic success. When all of this suddenly ran the risk of vanishing in the course of the Euro crisis, the German belief in the European currency dropped and old fears about economic weakness resurfaced.

Yet, another factor has to be taken into consideration: over the past ten years the Germans were prescribed a considerable programme of reform, by the Social Democratic Chancellor Gerhard Schröder, the "Agenda 2010". This project was highly unpopular as it decreased social benefits, increased the retirement age and reformed basic aspects of the social welfare state. Its aim was to make Germany as a whole more competitive again and to adapt to the challenges of globalisation. The Agenda 2010 contributed to Schröder's demise as significant parts of the population resented it but was continued to be implemented by the Merkel governments. The rather fortunate economic situation of Germany today is largely due to these reforms. It is against the background of the Agenda 2010, and the challenges it posed for many Germans, that the country entered the financial crisis.

When the Euro crisis evolved, some of the basic achievements of post-World War II Germany described above were at risk of being torn apart. The stability of the currency was no longer guaranteed, the central bank was perceived to lose its independence, and the country could be dragged into recession threatening its position as an economic giant. Germany's economic and monetary strength, both fundamental pillars of a German identity after the Second World War, were in danger of being destroyed. The culprits were soon identified and were conceived to be the peoples that had lived beyond their means for too long, and that had not undergone the demanding structural reforms Germany had implemented since the early 2000s. These perceptions and fears explain the calls from broad parts of the German population that the ones perceived to be responsible for crisis, the Greek, the Spaniards, and the Italians should have to pay the bill. At the same time, the German electorate wanted as little German tax money as possible to be spent on measures to end the crisis. As a matter of fact, in Germany, the crisis is still often perceived as a regional problem of certain countries' flawed policies (which is certainly an important factor) but not as an inherent problem of the currency union as such. The fact that German tendencies to high saving rates[1], moderate domestic consumption and heavy exports contribute to the crisis is broadly ignored, as those points once again touch on the economic identity and pride of the Germans. With Germany doing exceptionally well in economic terms at the moment, it is much easier to put the blame on somebody else.

It is for these reasons that the federal government resisted calls for Eurobonds or a more proactive role of the ECB, and continues to stress the importance of austerity measures, budget reforms, cuts on public spending, and economic reforms: the German way, so to speak. Whether these measures will solve the crisis or not is not the concern of this essay. It seems very likely, though, that what had worked for Germany in the past (and over a longer period of time) might not necessarily work for other countries today (and within a few years). It is also questionable whether the Germans really want all their neighbours to follow an export-led

[1] As for individual Germans there is no credit spending mentality as in the US, rather the Germans continue to have one of the highest saving rates in the world

economic policy. After all, Germany's trade surplus is its neighbours' trade deficits.[2] Yet, these policy prescriptions can be explained by the German experience over the past 60 or so years. However, the tone used by German politicians points not only to a lack of understanding of historical contexts but also to the absence of diplomatic skills. Naturally, Berlin has to be very careful in suggesting measures that would impede on national sovereignty of other countries. Germany had attempted twice over the past century to conquer and occupy large portions of Europe, among them Greece. Therefore, any call for a commissioner in charge of the Greek budget with powers extending to the administration of the country are more than tactless; they are insensitive and only fuel anti-German feelings in the European south. The mushrooming of caricatures playing on old tunes of "the nasty German" who is once again trying to subjugate Europe is a consequence of a flawed German diplomacy that caters excessively to the anxieties of the German people and neglects the historical experiences of the neighbours. It also neglects one of the basic lessons of European integration history: that Germany could always implement its ideas most efficiently if it promoted them calmly and discreetly. Moreover, the constant criticising by German politicians, such as Economics Minister Philipp Rösler, of Greece's lack of implementation of very painful reform efforts is counterproductive. Add to this the comments by Volker Kauder and the revived scepticisms among many German neighbours about the country's ulterior motives are understandable. Rather than continuing a policy of blaming others and offering measures short of a new momentum for European (economic and political) integration, Berlin has to develop a new European policy. This strategy should not only aim at solving the crisis successfully but would also have to create a common European endeavour to move forward, which is the only direction the European project can take. Maybe the election of Francois Hollande as new French president will give new impetus to this policy; but it is too early to tell to what extent Angela Merkel will be ready to compromise. Any comprehensive revision of the Euro – and thus European – policy will be difficult to implement in light of the historical memory of the Germans. The federal government will have to do a better job in explaining to the electorate the current situation. But more importantly the German government and people will have to realise that any further hesitation is more damaging to Germany's economic achievements than anything Greece has ever done.

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What Berlin needs is tact and sensitivity, a long-term strategy, and the willingness to be proactive, even if that provokes (domestic and international) criticism. Germany's historical legacy explains the attitude of the German population at large regarding the crisis, their fears and expectations. They are understandable. But history also tells us that Germany's economic success is intimately linked to European integration. It is the task of the government to dispel fears, to highlight the inherent risks in ignoring the fundamental problems of the Euro zone and to emphasise that they pose a much higher danger to the stability of the currency and Germany's economic success than most of the Euro reforms needed and proposed. Germany has to play a major and proactive role in the reform of the Euro, it has to offer a long-term strategy (one might even call it a vision) to Europe and it has to accept that this will come at a price. Yet, in all likelihood, the benefits will outmatch the costs. However, the federal government also has to acknowledge the historical truth that Germany cannot dictate a policy,

[2] Although recent data suggests that a considerable amount of German exports it going out of Europe now and towards emerging countries. If the trend continues, Europe might only account for less than 50 % of German exports by the end of this decade, see "Schwellenland-Boom Europa verliert für deutsche Exporteure an Bedeutung", in *Spiegel Online*, 16.05.2012, accessible online at http://www.spiegel.de/wirtschaft/soziales/deutsche-exporte-nach-europa-sinken-wegen-boom-in-schwellenlaendern-a-833566.html

rather it has to negotiate it. The history of the EU is the history of compromising – also with difficult French presidents (and from the German perspective, most of them have been difficult). In finding a solution to the Euro crisis, historical sensitivities – domestic and international – have to be understood, and considered so that they can be overcome. But most importantly, Germany and the Germans have to realise that a reform of the Euro and further integration will not negate the historic economic achievements of the *Wirtschaftswunder* and the Deutschmark, it will rather maintain them and carry them into the 21st century.

Further readings

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