Monetary Union

Europeanisation/German Politics
Outline

Intro
  Recap
  Intro

Germany, the Euro & all that
  Greece and the Current Crisis
  Germany and the creation of EMU

Summary
  Summary
  Your turn
Last week: Migration

- One of the most contested policy domains in Germany
- Cautiously europeanised over the last decade
- European rules fairly minimal, with much leeway for national regulation
- Rules
  - Not imposed on Germany
  - Rather shaped by Germany
  - Strategic use of “Europe” by government
Today: The Euro Crisis (and Germany’s role)

- Monetary Union: massive transfer of sovereignty to (mostly) supranational institutions
- High politics
  - Symbolic significance
  - Macro economic policy very important
- Again:
  - Driven by Germany?
  - Forced upon Germany?
- After more than a decade, Germany’s role hotly debated
How valid are the analyses?

- Three approaches
  1. Identify “objective” interests
  2. Look at historic sequences & sources
  3. Identify ideas that drive (elite) decisions
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  1. Economics not an exact science; politicians \( \neq \) economists
  2. All sources biased; all sequence open to interpretation
  3. Strategic use of ideas and language; actors act, not ideas
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▶ Do nothing? Be careful!
What is the general outline of the crisis?

- The subprime crisis spread to European banks
- European governments
  - Bailed out “their” banks
  - Became even more indebted in the process
- The financial crisis became an economic crisis
- Investors realised that the Club Med Euro members’ bonds should have higher yield
- Interest rates up, political turmoil
What is the problem with EMU?

- Binds together strong and weak economies
- Focused on single interest rate for all members
- Sets out criteria for stability and convergence (debt, deficit, inflation, stability) that are
  - Perhaps too narrow
  - Not backed up by common fiscal/economic policies
  - Amenable to political pressure
  - Incomplete (not enforceable)
- Seemed to work well for ten years, but
  - Gave Club Med access to cheap credit
  - Which was lost in crisis
The Greek problem(s)

1. Administration
   - Highly centralised (on paper)
   - Ineffectual and inefficient
   - High expenditure + tax evasion
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3. Economy
   - “Disjointed corporatism” (public sector unions)
   - Rigid employment laws & high unemployment
   - Weak, closed, non-competitive
   - Wages/prices too high since Euro
   - Very large “informal” sector (para economy)
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So: “vulnerable into the crisis”
Why is Greece a European problem?

- (German/French) banks exposed to debt → bailout?
- Greek different from Portugal, Spain, Italy, Cyprus, (Ireland)?
  - More cheats, hidden risks?
  - Borrowing costs exploding
  - Not containable
- Exposes incomplete structure of Euro system
- No way that Greece & others can comply with SGP any time soon
- Investors betting against Euro?
The (lack of a) strategy to deal with the crisis

▶ Initial (near) consensus on “no bailout”
▶ Emerging conflict between “sound money” (led by Germany) and the South
▶ Unconventional interventions by ECB
▶ Incremental, contradictory and incoherent strategy
  ▶ Specific bailout package for Greece (that triggered political crisis) – too late?
  ▶ Creation of temporary (and permanent) bailout facility
  ▶ Fiscal compound (?)
  ▶ Further integration – highly controversial
▶ Politics driven by “the markets”, biggest crisis of financial and political credibility since 70s
Why did Germany agree to EMU?

The conventional account

- German elites agree on low inflation/prudence, but somewhat divided
  - Financial elites + economy/treasury
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- France wanted to end dominance of Bundesbank
- Extracted EU/EMU as price for agreement to unification
- Germany committed to low inflation/budgetary discipline, but could not get stricter SGP
- Lost credibility in compliance crisis
- Benefitted economically
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The ideational account:

- Kohl believed in sound money, but even more in Europe
- Was really convinced that German/European unification could/should be achieved in tandem
- Favourably disposed to France/French ideas, especially when isolated from financial elite
- 1989 strengthened his convictions, allowed him to get past German elites/public
- Conflicting aims – just like Merkel?
- Another explanations for Germany’s current dithering
Impact of crisis on Germany?

- Inflation, actual payments - not much yet
- Emerging conflict
  - Between government and opposition (austerity vs Keynes & solidarity)
  - Within government (CDU vs CSU, FDP, CDU dissidents; now CDU/CSU vs. SPD?)
- Merkel engaged in massive two-level game
  - Madame No, most-hated woman in the world, reluctant paymaster/hegemon . . .
  - Defender of our coffers, but increasingly seen as too yielding
- Increasingly isolated and caught between conflicting preferences?
- Massive constitutional and meta-political implications
- Party splits and constitutional change cannot be ruled out
Where do we go from here?

- Another crisis that has not ended before Christmas
- Little agreement on . . .
  - The causes and nature of the problem
  - The means to solve it
  - The desirable end-state
  - The distribution of costs
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- We do not know
EMU backed up by political will (that now seems lacking)

In hindsight, crisis perhaps inevitable, yet unforeseen (by most)

No obvious way out

Germany overburdened with expectation, vilified and caught between conflicting preferences

Even if willing to pay (for further integration), cannot act singlehandedly
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“Sometimes it lasts in love, and sometimes it hurts instead” (Adele 2011: p2)
Class questions

In small groups (really, not more than five) students, discuss these questions:

1. So far, has Germany been Europeanised by EMU?
2. What are and what were “Germany’s” preferences re the Euro? What will Germany do next?