

Monetary Union

Europeanisation/German Politics

Outline

Intro

Recap

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Germany, the Euro & all that

Greece and the Current Crisis

Germany and the creation of EMU

Summary

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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 v important
- ▶ Again:
 - ▶ Driven by Germany?
 - ▶ Forced upon Germany?
- ▶ After more than a decade, Germany's role hotly debated

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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

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- ▶ Ineffectual and inefficient
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- ▶ “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
 - ▶ Foreign office + chancellery (sometimes)
- ▶ 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

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- ▶ 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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- ▶ Germany overburdened with expectation, vilified and caught between conflicting preferences
- ▶ Even if willing to pay (for further integration), cannot act singlehandedly
- ▶ “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?