

At a Snail's Pace

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John Kornblum

Two years after its beginning, the Euro crisis has finally become truly institutionalized. It has passed into the fabric of the European debate, where, according to Angela Merkel, it can now rest for at least the next two years. The common currency has become one of those permanent issues which inhabit the European agenda, without any sign of fatigue or promise of solution.

The debate is already past the point where most people can remember what it is all about. Or why the Euro was invented in the first place. A senior Bundesbank official helped focus the issue recently with the following comment: “the Euro may be in trouble, but at least it has lowered the danger of war.” If that’s the case, what’s all the fuss about? To non-Europeans, tying such a complex financial issue to historical memory is a shocking error. But to EU experts, becoming a peace issue gives the Euro a permanent reason to exist. Market forces have little relevance to an issue which helps rid Europe of the nightmares from the past.

Unfortunately, the European Monetary System lives primarily outside the confines of European debate. It in fact is the first European project faced with competing openly on a global scale. Its contribution to peace is irrelevant to traders deciding how to manage sovereign debt. Its visions ignore completely the dangers of global financial collapse which could result from the weakness of a system apparently devised primarily to support Europe’s psychological health.

That means the EMS must perform. Not only for global markets but for European economies which require a stable financial system in order to grow and prosper. This “real economy” is rarely mentioned in public debate. But it is ultimately the reason for the Euro or any other currency to exist. Many bankers argue that Europe’s real economy is in much worse shape today than it was two years ago, when the current crisis started. This means the European Union is failing its citizens in a most fundamental way.

Curiously, European leaders seem satisfied with their performance, apparently because they are becoming accustomed to dealing with this new agenda item. They are even learning the technical terms and can hold a credible press conference on a moments notice. As proof, Minister Schaeuble recently listed many steps taken by Europe over the past two years. Problem was that the United States achieved the same result with the TARP program in six weeks.

Two years versus six weeks. Those numbers illustrate the real weakness exposed by the financial crisis. In its current state, Europe’s real economy cannot remain competitive in a world where decisions are often taken in milliseconds. The European method appears to have lost relevance in a fast moving networked world. If that is the case, the EU in its current form cannot long continue to prosper.

Optimists say that this time it will be different. The shock of the financial crisis will galvanize governments into common action. But so far, exactly the opposite is happening. Increasingly, the EU has been unable to exert discipline on their larger members or to guarantee the prosperity of its smaller ones. . The nations of Europe are too ambitious to trust their economic futures to an organization which performs so poorly. They have started to look elsewhere.

European industry has already made its choice. It is expanding globally so fast that for some companies, their European

nationality may already be in question. Soon individual countries will also gradually begin seeking separate bargains, inside or outside the treaties of the Union. Common institutions are likely to erode as major members build their own interests across the globe. The most likely to lead this group is Germany, which is the only globally competitive economy in Europe.

Angela Merkel has already defined a new communal approach to Europe which she believes will steadily supersede the Brussels-based leadership of the European Commission. She underscored the thinking behind this idea at the opening of the CEBIT fair in Hannover on February 11, 2011. Germany, she said, was the only globalized economy in Europe. The rest were mediocre (Mittlemass).

Today's unbending German support for Europe is in fact more likely a precursor of change than of continuity. Seven years ago, I analysed the way Germany handles change in an article for the Handelsblatt. I concluded that postwar Germany's had often changed dramatically, but that its fear of instability caused it to delay discussion of alternatives for as long as possible. When Germany seemed to be holding especially tight to the conventional wisdom, as it is today, it was time to assume that something new was in the works.

Even today's belief in austerity is a recent innovation. As recently as 2002, lazy, over-spending Germany was considered to be the "sick man of Europe". Now Germany is not only a proponent of austerity, but it has essentially called for an end to the European welfare state.

What caused such a dramatic change in direction? Most fundamental was Germany's success in building one of the world's most successful globalized economies. But reunification was also important. Success has built self-confidence. Germans believed that if they could do it, so could others.

The same thing happened in the 1970's and 1980's. Germany fought against a change until the very last minute, but then changed dramatically as new realities emerged. Up until the day the Berlin Wall came down, for example, German leaders from all parties were devising proposals for accepting the Soviet view of a divided Europe. This was why Reagan's famous "tear down this wall" speech was actually aimed not at Moscow, but at Bonn. But when change came, Germany supported reunification with full force.

Jump forward to 2012 and there is considerable reason to assume that the patterns will be repeated. For the first time German elites appear to be viewing the EU as a hindrance to Germany's national interests. One hears such doubts across the spectrum of occupations and locations. Recall the sarcastic Bundestag reaction to the reform program recently put forward by the Presidency and the Commission.

Europeans have come to believe that the EU began a new era of history which must be permanent. But history teaches that international organizations are like political parties or brands of automobiles. They are invented, they serve a purpose and then they often disappear.

More dithering by European leaders could easily push the EU into the category of dinosaurs from the past. This nightmare is the real challenge of the EMU crisis. Not another resolution on bailouts or banks, but how successfully can European cooperation guarantee real economic growth and innovation? So far the record gives little hope for optimism.