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Europe’s confused attitude to German leadership

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Eurozone is happy to back Berlin when it is wrong and resist it when it is right

German Chancellor Angela Merkel

We are in an interval during the long Greek tragedy, in a gap between the wailings of the chorus but still far from the end, so this is a good moment to ponder one important point about the politics of the eurozone: why do the other 18 members of the single currency accept Germany’s leadership when it is wrong and yet refuse it when it is right? Or to put it another way: if this is a German-dominated Europe, why are the Germans so ineffective at domination?

Of course, this all depends on what you think is right and wrong. What I mean by “right” is the view expressed by Wolfgang Schäuble, Germany’s finance minister, that Greece should leave the euro, both for its own sake and that of the single currency itself. And even if you don’t think it is right, it is certainly logical.

The logic of Grexit — whether it is "temporary" or not is mere semantics — comes from the combination of the International Monetary Fund's analysis of Greece's sovereign debt burden, which defines it as unsustainable without a big write-off, and the view presented by eurozone countries big and small, rich and poor, which holds that forgiveness of debt by official creditors is incompatible with membership of the single currency.

There is room to argue about whether that last point, that only a leaver can have its debts written off by other governments and official lenders, is necessarily true. But none of those arguing strongly for Greece to be kept in the euro — including France, Italy and Luxembourg, the most vociferous in opposition to the Schäuble line — have addressed that question, at least not publicly. Until they do, simple logic and the arithmetic of debt will make Grexit simply a matter of time.

Having entered the weekend of negotiations of July 11-12 expecting to force Greece out of the euro, neither Chancellor Angela Merkel nor Mr Schäuble can now think that Germany in any sense "dominates" Europe. And yet they have been successful for more than three years now in holding the eurozone to an economic stance that has left the 19 countries' level of unemployment more than twice as high as that of America.

It is hard to find a better definition of "wrong" than the fiscal pact of 2012, which mandates a universally tight fiscal stance in the eurozone, regardless of whether a country has an affordable level of public debt, regardless of the cost of borrowing and regardless of the state of aggregate demand, and which simultaneously rejects any idea that countries with large current-account surpluses bear any responsibility for adjustment.

This is, in other words, a policy under whose logic America must be seen as having been fiscally reckless in recent years, with its gross public debt exceeding 102 per cent of gross domestic product, and which is shown by its current-account deficit of 2.6 per cent of GDP to be suffering a severe lack of competitiveness that evidently requires urgent structural reform and fiscal austerity. The fact that the US unemployment rate of 5.3 per cent is even lower than Germany's 6.4 per cent is a trifle inconvenient for this argument, but, well, perhaps it is just storing up trouble for the future.

It is this strange combination, of a right policy that is rejected and a wrong policy that is unchallenged, that is giving rise to the risk talked of by the Polish president of the European Council of political contagion from Greece, breeding nationalism all across Europe. Such nationalism, in the form of France's National Front, or Italy's Northern League, or even Britain's UK Independence party, is not characterised chiefly by anti-German feeling, which it might be if Germany were truly dominating Europe. It is characterised by a rebellion against the mainstream parties in each country which have colluded with this bizarre situation.

This very combination offers, however, a way forward. Germany can be given its way on Grexit, in exchange for altering its attitude to the fiscal rules that are throttling the European economy. The funny thing is, this is what the IMF has been arguing for several years, at least in its economic analysis. One day, it might even be listened to.

The writer is a former editor of The Economist and executive producer of the 'The Great European Disaster Movie'

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