Germany and the EU

Lecture given at the Summer European Academy 2013

Joint German-Russian Seminar

Otzenhausen

Outline

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3. The € + Greek debt crisis: a short history
4. Germany‘s policy response
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    4. The Federal Constitutional Court rulings
5. Changes in Parliamentary Support
6. Limits of German-French intergovernmentalism
7. Conclusion and outlook

Widespread critique of Germany

„Rarely has Germany been as important – or as isolated – as today“.

(Quote from Guérot/Leonard 2011: 1).

The argument

1. Germany‘s policy during the Euro-Crisis is driven by domestic concerns and the fear of hazardous committments for (irresponsible) lender governments. Domestically, German bank‘s concerns, public opinion and the Federal Constitutional Court were shaping the Merkel government‘s response.
2. Discourse analysis reveals that parliamentary justification for the emergency measures /establishment of the EFSF, the ESM, the SGP and the Fiscal pact changed substantially overtime.
3. The recent crisis in Cyprus shows that the Merkel government‘s intergovernmental crisis management had no permanent soothing effect: only after the ECB took the helm as a lender of last resort financial market came to a rest.

The approach: liberal theory (Moravcsik 1998)

Independent Var. (IV)

1. Societal competition over **values**
2. Societal competition over **goods**
3. Societal competition over **power**

Policy Interdependence

Intervening Var. (IV)

1. Supranational actors

Conditioning Var. (KV)

1. Technological development
2. Economic development

Dependent Variable (DV)

Conflict/Cooperation

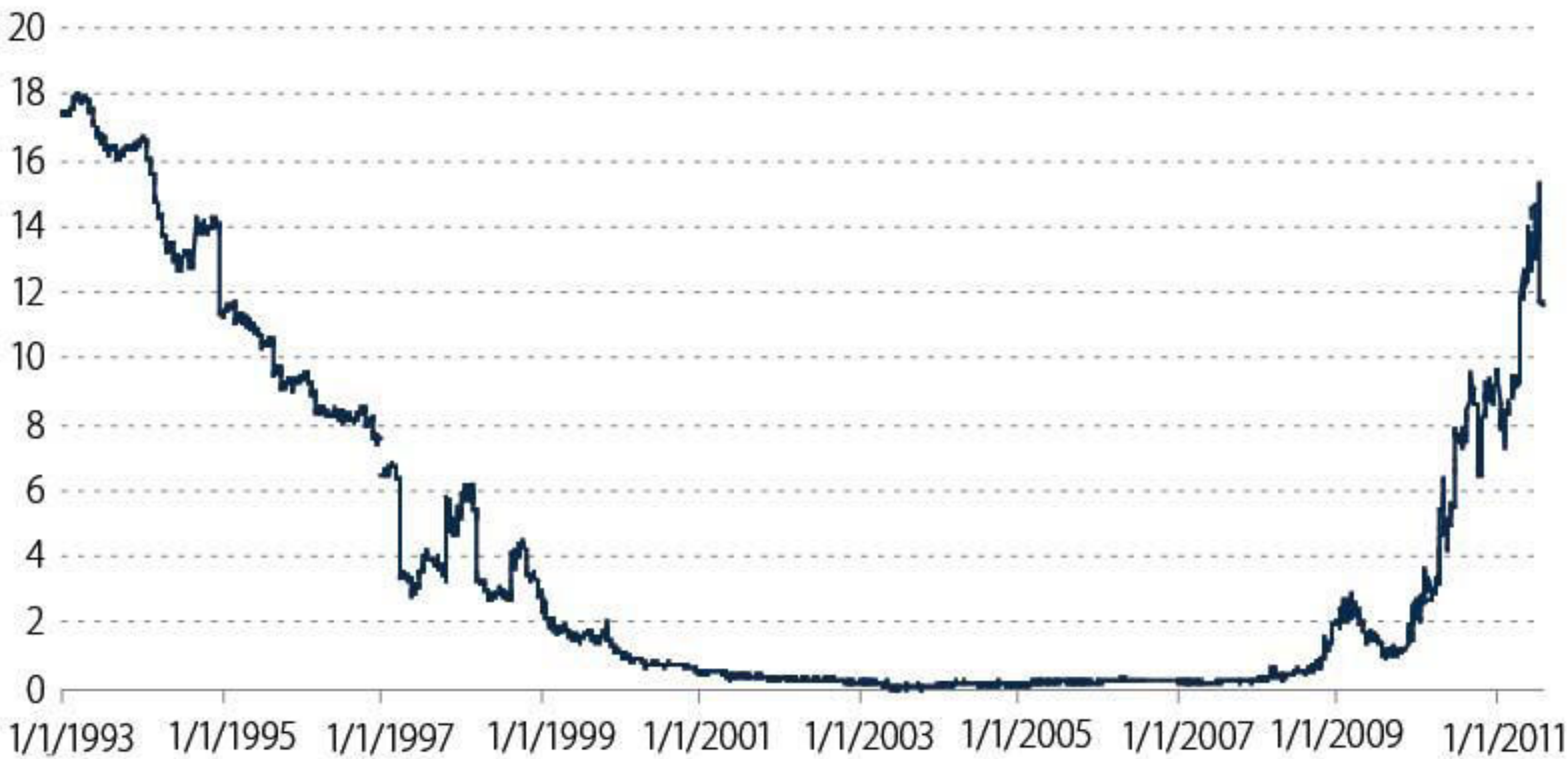
1. Compatibility of interests
=>Delegation of sovereignty
2. Diverging Interests
=> Conflict
3. Complementarity of interests
=> Policy coordination

The Euro and the Greek debt crisis:

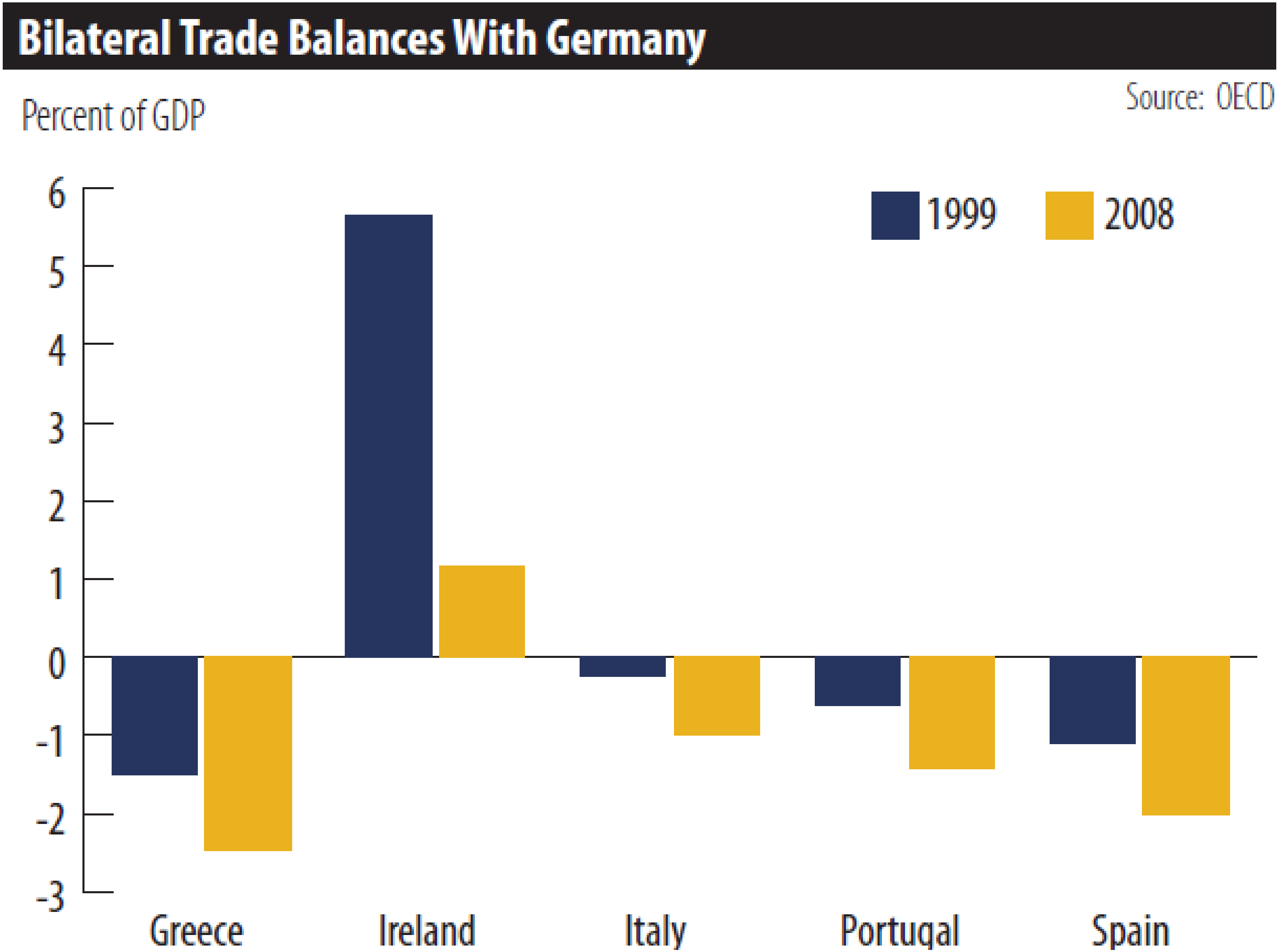
a short history

Greek Bond Spreads, 1993-2011

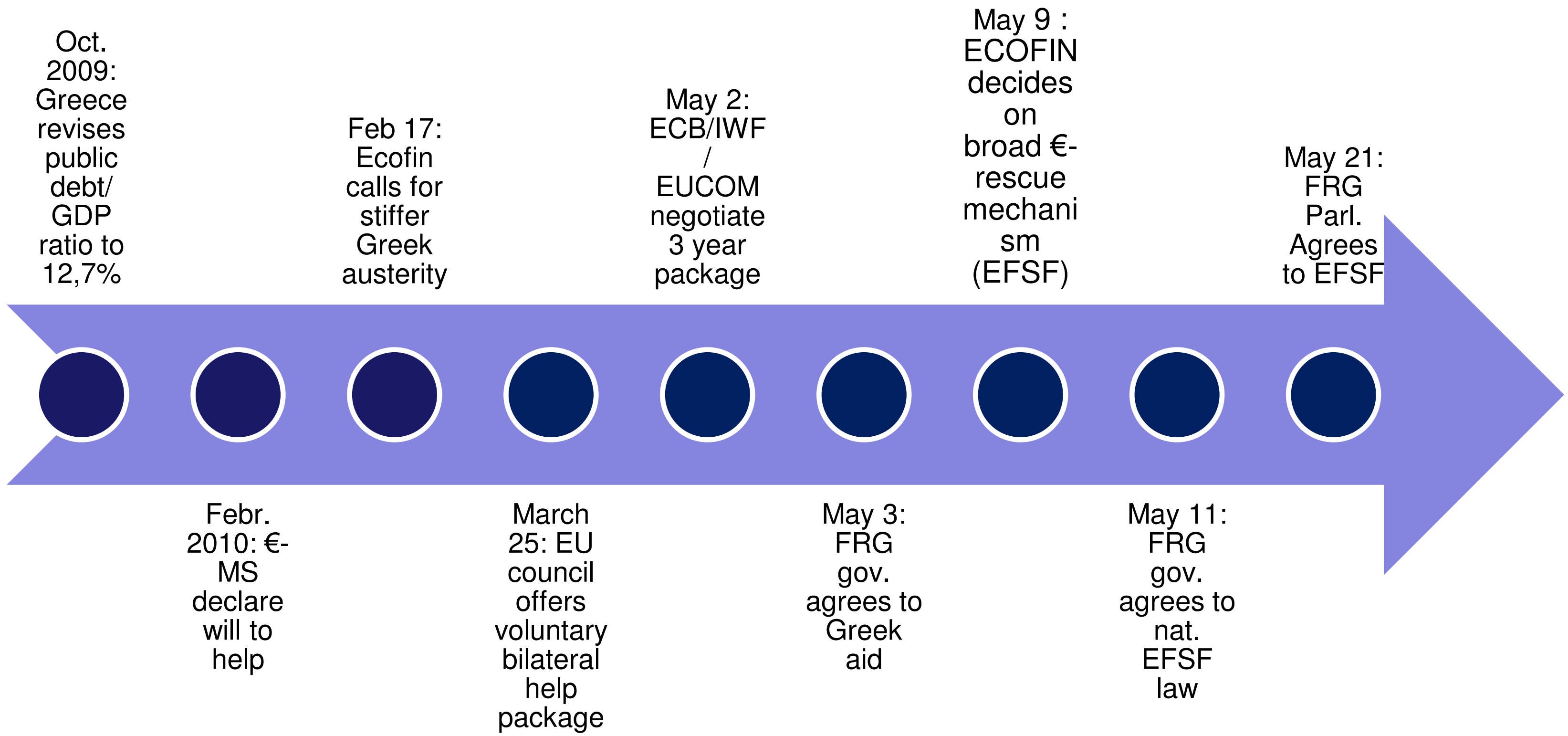
Spreads on 10-year Greek bonds relative to 10-year German bonds (%)



Source: Nelson/Belkin 2011: 5

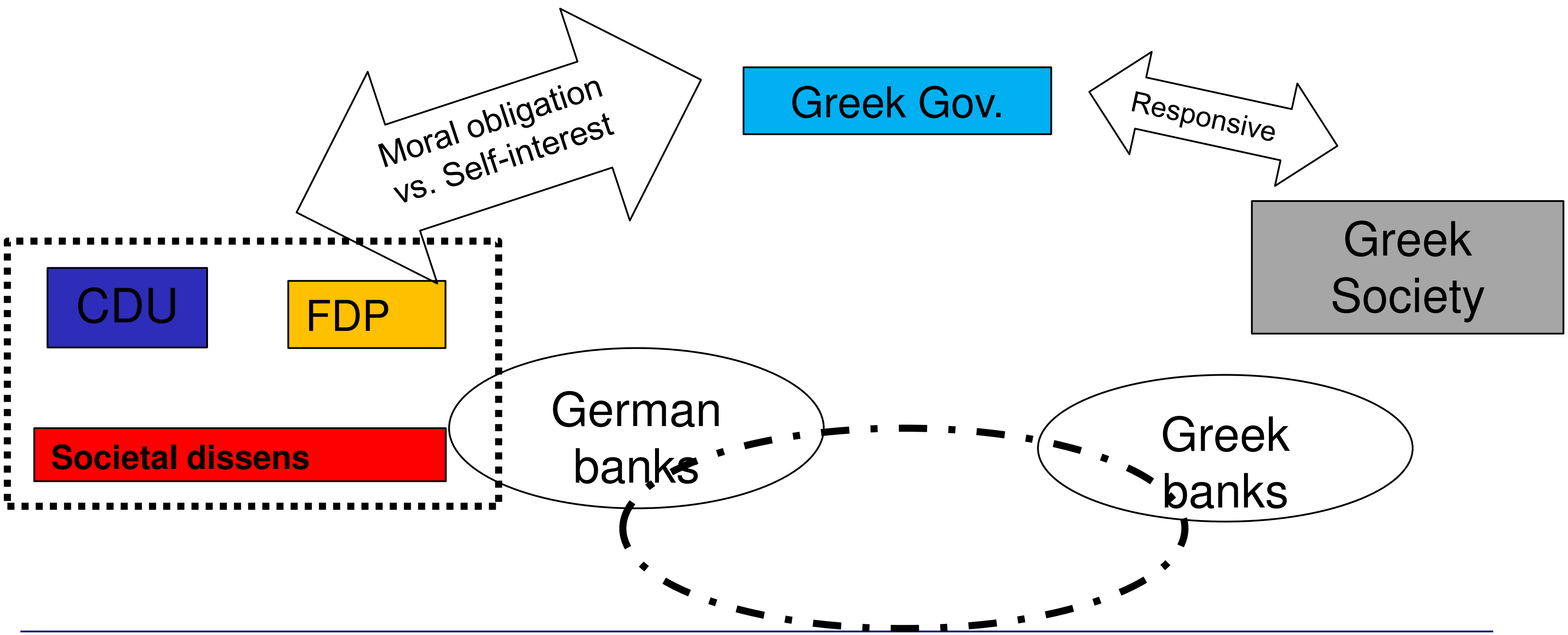

Bilateral Trade Balances With Germany
Percent of GDP
Source: OECD
1999
2008
6
5
4
3
2
1
0
-1
-2
-3
Greece
Ireland
Italy
Portugal
Spain

Timeline: The Euro and Greece Debt Crisis, 2009-2010

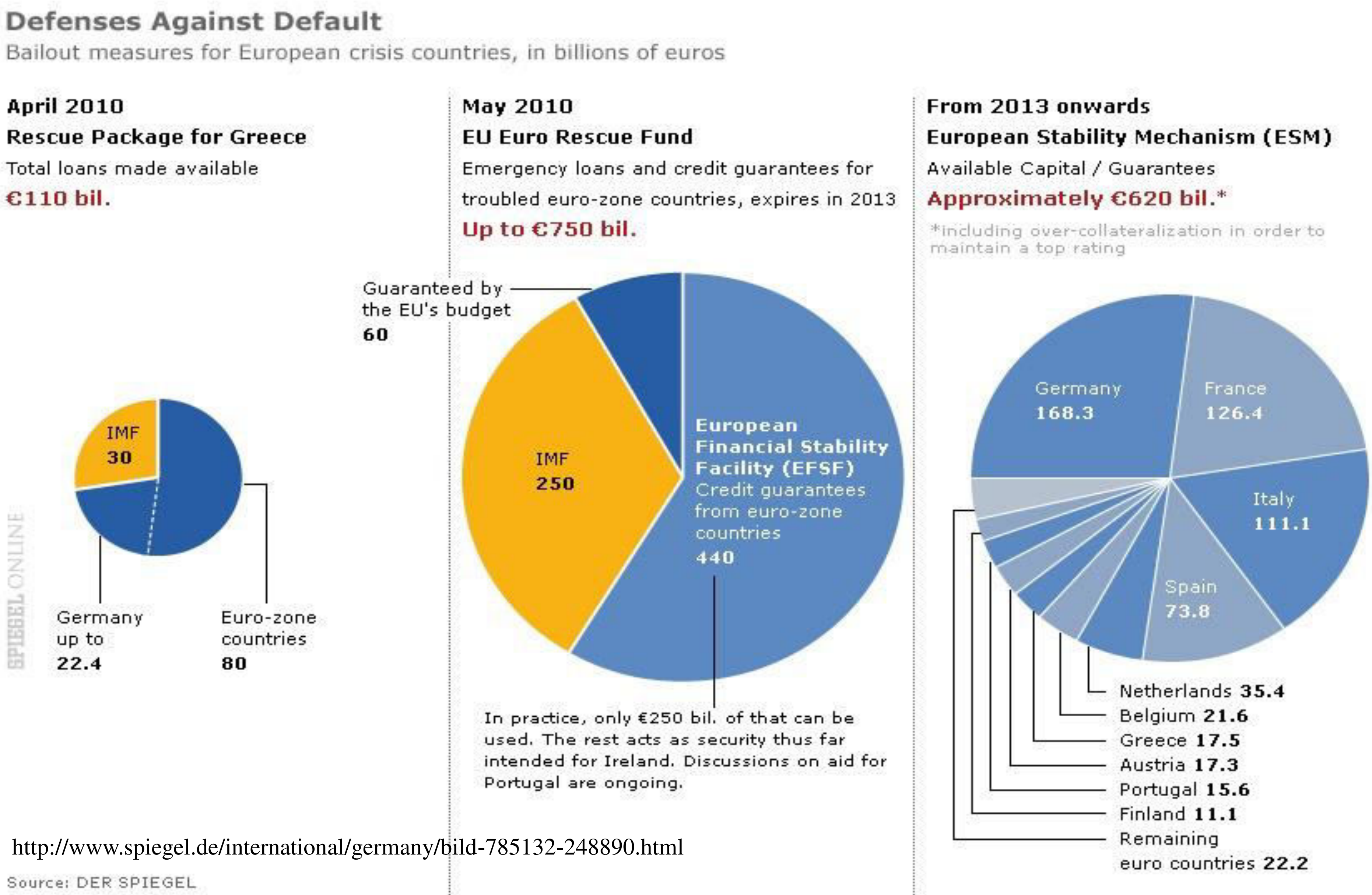


Moral Hazard-Problem (Insurance-Effect)

Moral hazard refers to the tendency for insurance against loss to reduce incentives to prevent or minimize the cost of loss *(Baker 1996: 239).*



Overview: €-MS stabilization mechanisms



http://www.spiegel.de/international/germany/bild-785132-248890.html

Timeline: The Euro and Greece Debt Crisis, 2010-2011

- 21. Oct: Van Rompuy Report
- 21.Nov: Ireland calls for EFSF help
- 16. Dec: EUC estab. ESM (European Stability Mechanism)
- March 11: €-MS establ. Euro-Plus Pact for competitiveness
- March 25: EUC establ. ESM and stricter ESG-Pact
- 20 June: ECOFIN finalizes ESM and reviews EFSF framework treaty
- Aug. 16: Merkel agrees to EU economic governance scheme
- Sept. 7 : FCC rules bilateral + EFSF scheme constitutional.
- Sept. 9: ECB Chief Economist resigns

Germany‘s policy response

German policy response: Phase 1 (May 2010)

1. Merkel government signals substantial support, but withholds final commitment to gain additional Greek concessions and strengthen „ultima ratio“ argument.
2. Merkel government insists on voluntary bilateral measures and IMF involvement to highlight intergovernmental and voluntary character of aid. (cf. FCC Maastricht ruling, para. 146-148.)
3. Merkel government is aware of substantial domestic opposition:
    1. Several professors (Economics) appeal to FCC.
    2. Several members of ruling coalition disagree.
    3. Germany‘s biggest boulevard newspaper (Bild-Zeitung) is highly critical.
4. **Bottom line:** Merkel government agrees to broad intergovernmental rescue mechanism (European Financial Stability Facility (EFSF) with substantial contribution (150 Bil. €), but hedges against involuntary at home (FCC) and voluntary defection (Moral hazard) abroad.

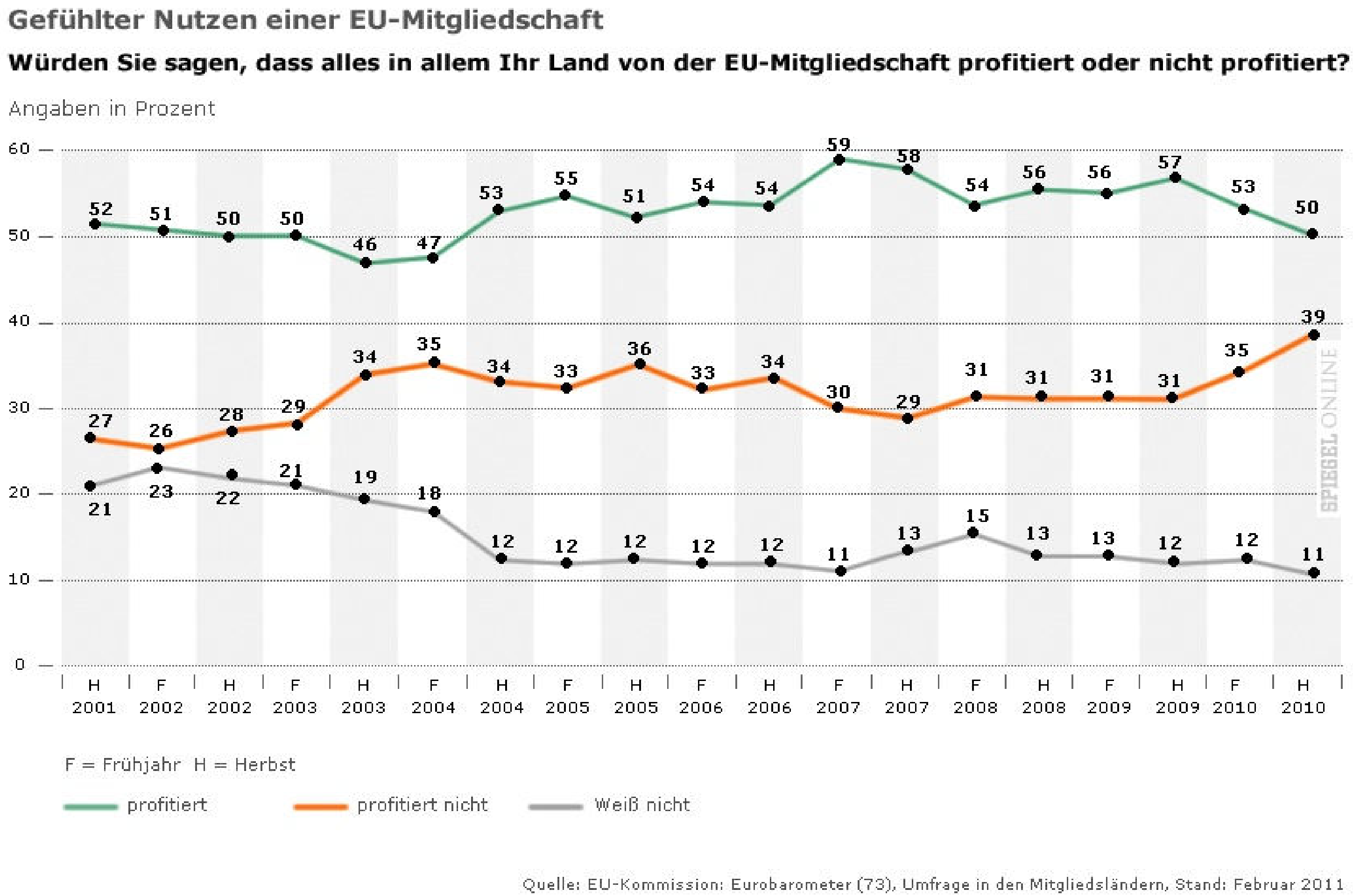
German policy response: Phase 2 (March-June 2011)

Bilateral Greece prog.	**EFSF / ESM**	**Euro-Plus/SG-Pact**
Respect EU + nat. law	Respect EU + nat. law	**SG-Pact**
Ultima ratio for €-zone	Ultima ratio for €-zone	Better oversight
Bi-, not supranational	Intergouv.: nat. veto	Activation+sanction for wider non-compliance
Inclusion of IMF	No automatic liability	Sanctions:loss of voting
Strict budget consolid.	Inclusion of IMF	Ordered insolvency
Effort of Banks+lenders	Strict budget consolid.	**Euro-Plus Pact**
	Effort of private sector	New German Stab. cult
		New Coordinati. Bodies
Substantial contribution	*Substantial contribution*	Also for Non-€ Countr.

German Public Opinion on €-bailout: sceptical

- April 2010: bilateral aid for Greece
  - 57% vs. 33% against aid (cf. Infratest dimap, 15./16.04.2010).
  - *65 % vs. 16% against aid (cf. Institut für Demoskopie Allensbach, www.*FAZ.net, 28.04.2010).
- May 2010: German participation in EFSF
  - 64 % vs. 31 % against German substantial participation (123 Bio. Euro).
  - 51 % vs. 35 % against establishment of EFSF (cf. Infratest dimap, 25./26.05.2010).
- Strong overall support for stabile Euro
  - May 2010: 82 % vs. 17% € is in German interest
  - November: 88% vs. 11% (cf. Infratest dimap, 29./30.11.2010)

EU Public Opinion Poll: Is German EU membership beneficial?

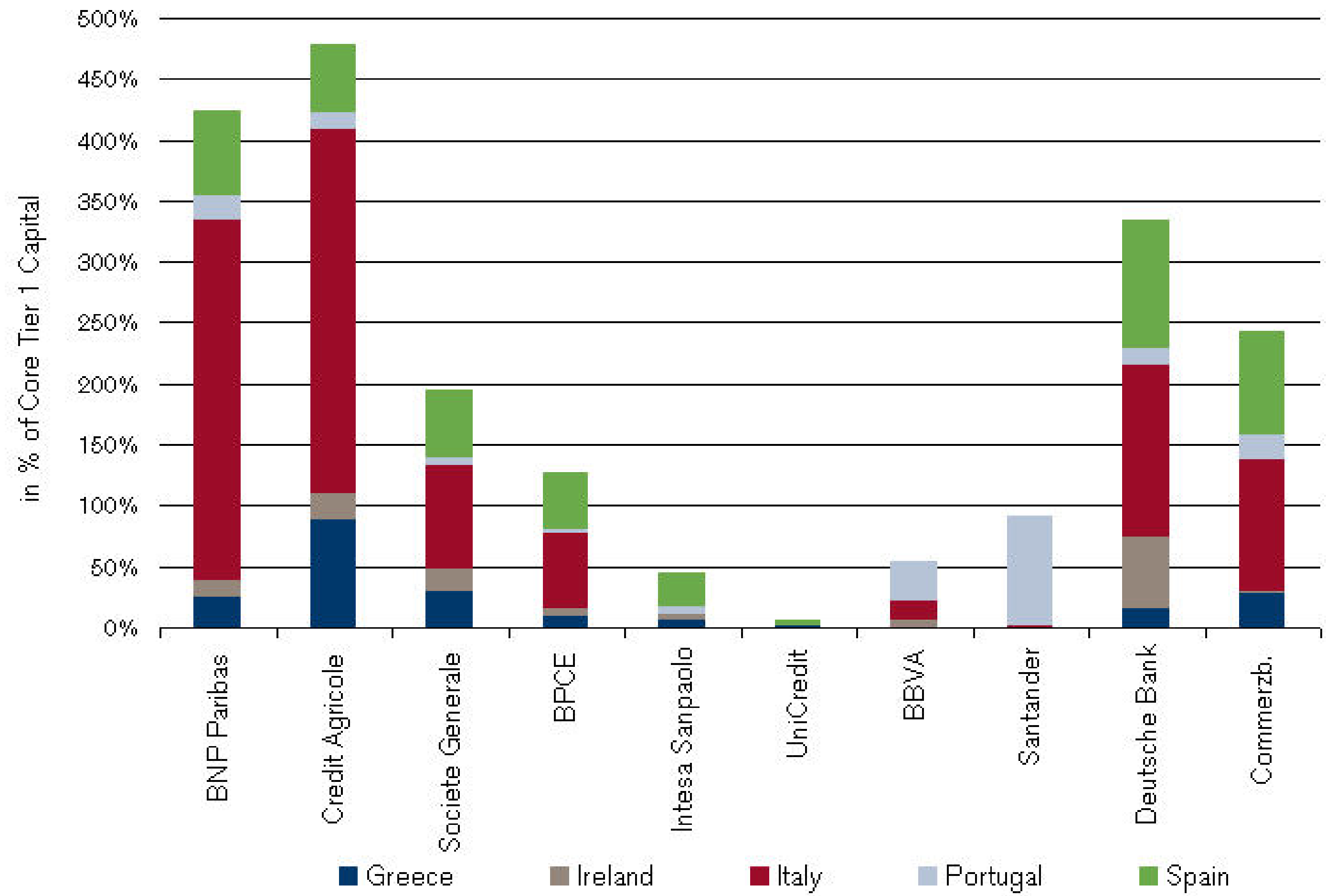


Chancellor Merkel addressing public concerns

„Wir helfen Griechenland, weil wir so der Stabilität unserer gemeinsamen Währung insgesamt helfen. Wir schützen das Geld der Bürgerinnen und Bürger unseres Landes – nicht mehr und nicht weniger ist der Auftrag der Bundesregierung genauso wie des Hohen Hauses hier“

(Chancellor Merkel, Address to the Bundestag,19.05.2010).

55% of Public debt titles in troubled economies were held by German and French banks



Quelle: https://infocus.credit-suisse.com/app/article/index3.cfm?fuseaction=ShowImageDetail&cimgoid=321387&pimgoid=321386

JOSEF ACKERMANN

06.11.2011, 19:35 Uhr

„Wir müssen Griechenland im Euro behalten“

Deutsche-Bank-Chef Ackermann will den Euro-Rettungsschirm weiter aufstocken und so angeschlagene Staaten retten. Die Gefahr einer Ansteckung sei enorm gewachsen.

Der Vorstandsvorsitzende der Deutschen Bank, Josef Ackermann.
Quelle: dapd

Frankfurt/Berlin. Deutsche-Bank-Chef Josef Ackermann warnt vor einem Ausstieg Griechenlands aus dem Euro. „Das ist eine Lösung, die man gar nicht andenken sollte. Das wäre ein ganz dramatisches Ergebnis“, sagte Ackermann am Sonntag in der ARD-Sendung „Bericht aus Berlin“. „Wir müssen Griechenland im Euro behalten.“ Am gefährlichsten sei die Gefahr einer Ansteckung auf andere Länder. Die italienische Regierung habe die Lösung aber selbst in der Hand. „Italien ist ein reiches Land“, sagte der Deutsche-Bank-Chef. Das Land müsse endlich seinen Haushalt in Ordnung bringen. In Griechenland gehe es darum, das Land als Investitionsstandort attraktiver zu machen.

German Federal Constitutional Court rulings on Euro-Crisis Emergency measures (2011-2012)

1. FCC ruling of September 7, 2011 on Lisbon treaty: Headnote 3 on so -called Eurobonds:
   1. The Bundestag must not transfer its budgetary competences onto other actors by way of vague empowerment. In particular, it must not engage in any scheme which may involve unforeseeable costs without its prior constitutive consent.
   2. No permanent international legal mechanisms must be established, which may involve any liability for free policy decisions by other member states, especially if they involve highly risky follow on effects. Any substantial international or EU-based aid measure must be appropriated by the Bundestag.
   3. Moreover, it has to be clear that parliament has substantial influence of the ways and means of providing the aid.
2. FCC ruling of February 28th 2012 on the establishment of a Special Parliamentary Cmte. on EFSF: strengthening the plenum of the Bundestag and limiting the competences of the Special Cmte with reference to Art. 38 (GG).
3. FCC ruling of September 12th 2012 on transfering bills of treaties changing Art. 136 AEUV, establishing the European Stability Mechanism (ESM) and the Fiscal Compact: limiting total financial obligations to 190 Bil. € and strengthening parliamentary oversight

Did German parliamentary support for Euro-Crisis emergency measures change substantially?

Solidarity and its operationalization

<u>Definition:</u> „Solidarity“ may be defined as reciprocal commitment of rights and obligation for help which are based on a sense of community.

	Solidaritätselement	Intensität
Effort	**Anstrengung:** Solidarität unter Konditionen	**Gering**: Anteil an materiellem Interesse am größten
Bonding	**Bindung:** Solidarität aufgrund spezifischer Bindungen bzw. Gebundenheit an eine Gruppe	**Mittel**: Anteil an materiellem Interesse ausgeglichen mit solidarischen Motiven
Neediness	**Bedürftigkeit:** Solidarität in Notlagen	**Stark**: Anteil an materiellem Interesse am geringsten

Example from Parliamentary debate: Neediness and Solidarity

„Machen Sie es endlich: Helfen Sie in dieser Krise ganz anders! Denken Sie an die Bekämpfung von Armut! Denken Sie endlich einmal an die Chancengleichheit im Bildungsbereich! Schaffen Sie mehr Beschäftigung! Organisieren Sie nicht die Wiederholung der Krise!“

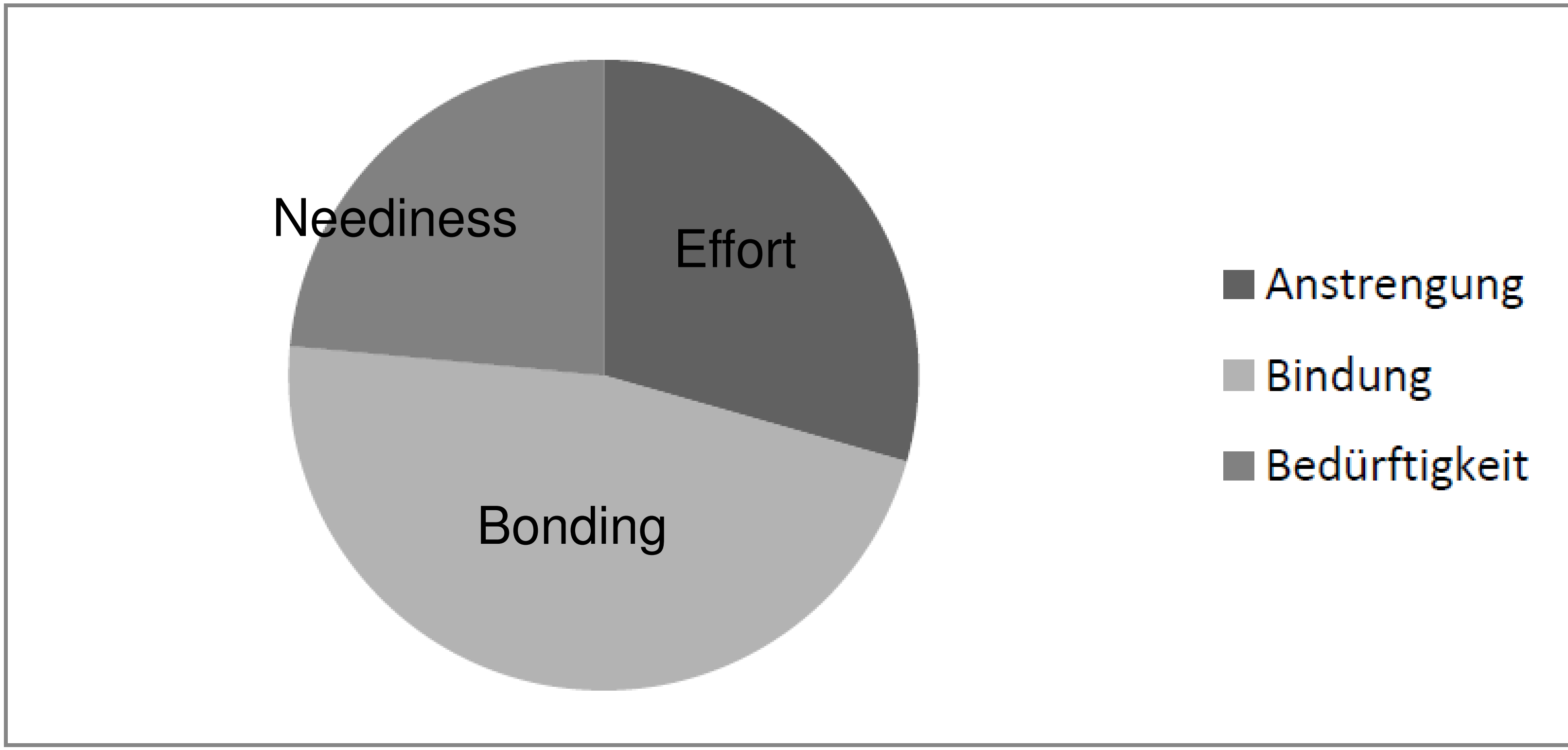
Gysi BT-StenBer. 17/34, S. 3104

Example from Parliamentary debate: Bonding and Solidarity

„Deutschland lebt in der Europäischen Union in einer Schicksalsgemeinschaft. Ihr verdanken wir Jahrzehnte des Friedens, des Wohlstands und des Einvernehmens mit unseren Nachbarn. Der Krieg, der – nicht zuletzt durch deutsche Schuld – immer wieder Europa verwüstet hat, verschont unseren Kontinent inzwischen so lange wie nie zuvor in der jüngeren Geschichte. Wir Bürgerinnen und Bürger Europas sind zu unserem Glück vereint. *Für diese Überzeugung hat noch jede deutsche Bundesregierung – von Konrad Adenauer bis heute – gearbeitet. Wir arbeiten für ein starkes Europa, das seine Rolle in der Welt geeint und entschieden wahrnimmt, das seine Werte und Interessen selbstbewusst verteidigt. Das war, ist und bleibt Deutschlands und Europas Zukunft.“*

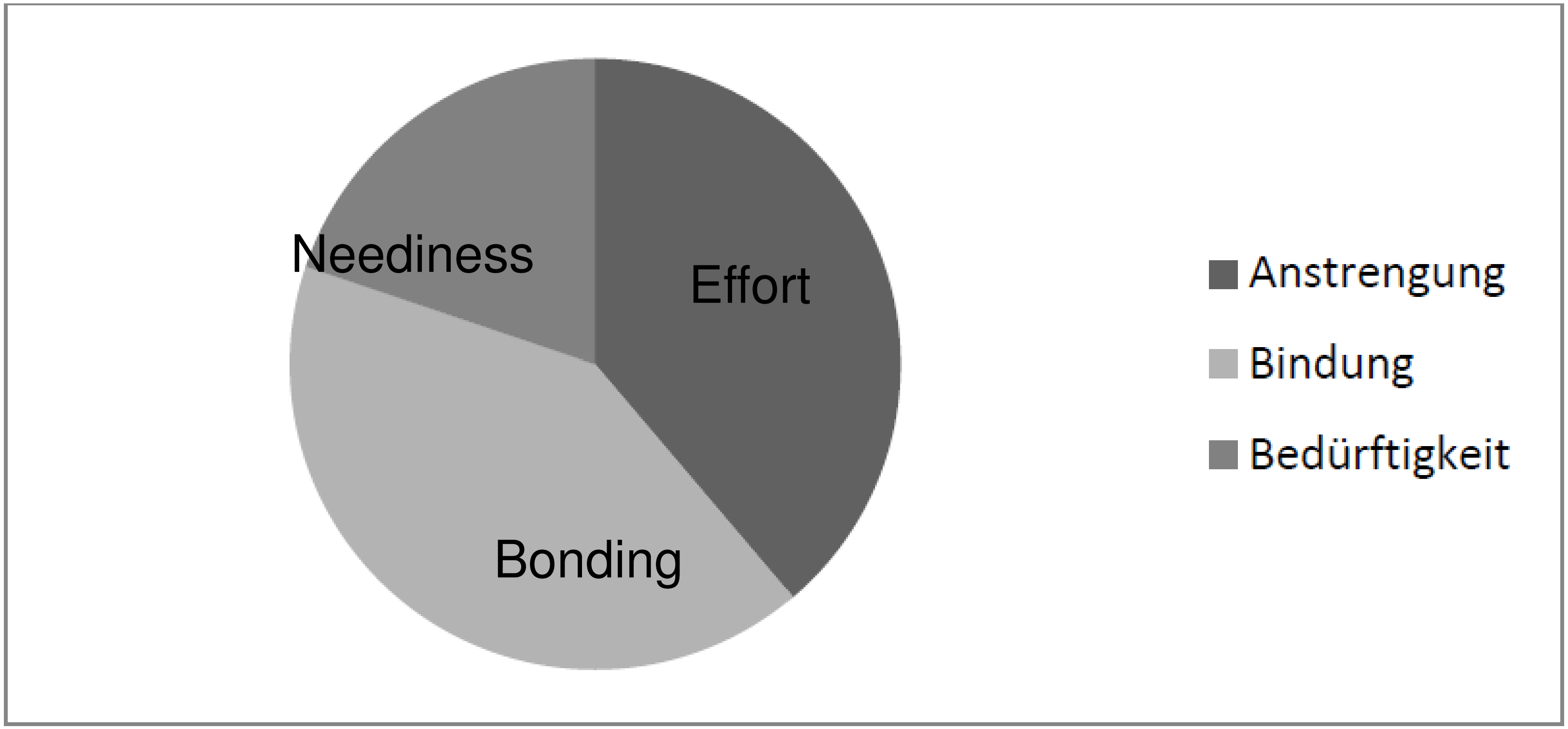
Merkel BT-StenBer. 17/39, S. 3727

Phase 1: Sept. 2009-June 2010: Distribution of Solidarity elements*



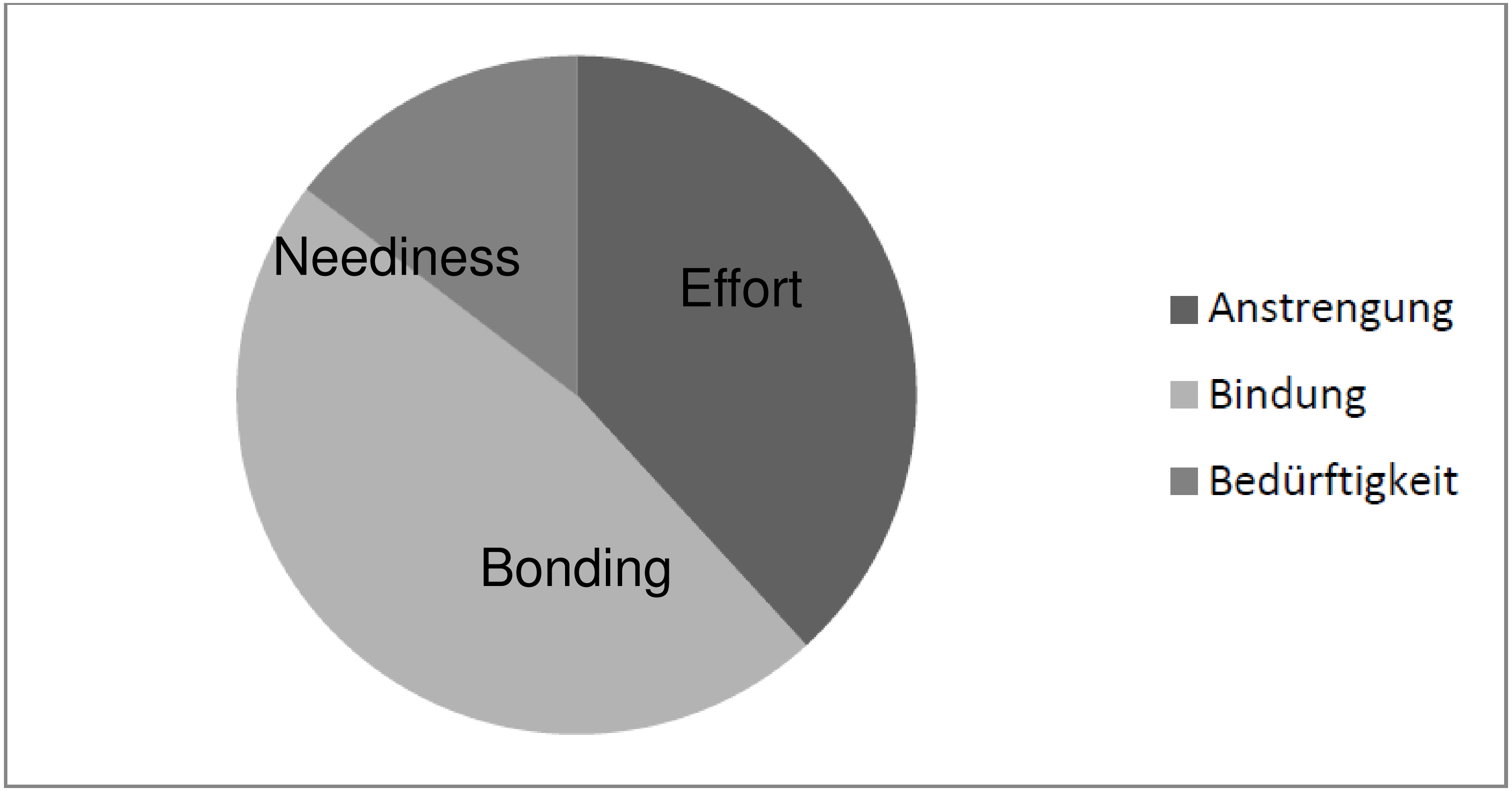
* Counted in three decisive Parliamentary plenary sessions: 34., 39. und 41. Session

Phase 2: Juni 2011-Sept. 2011: Verteilung der Solidaritätselemente*



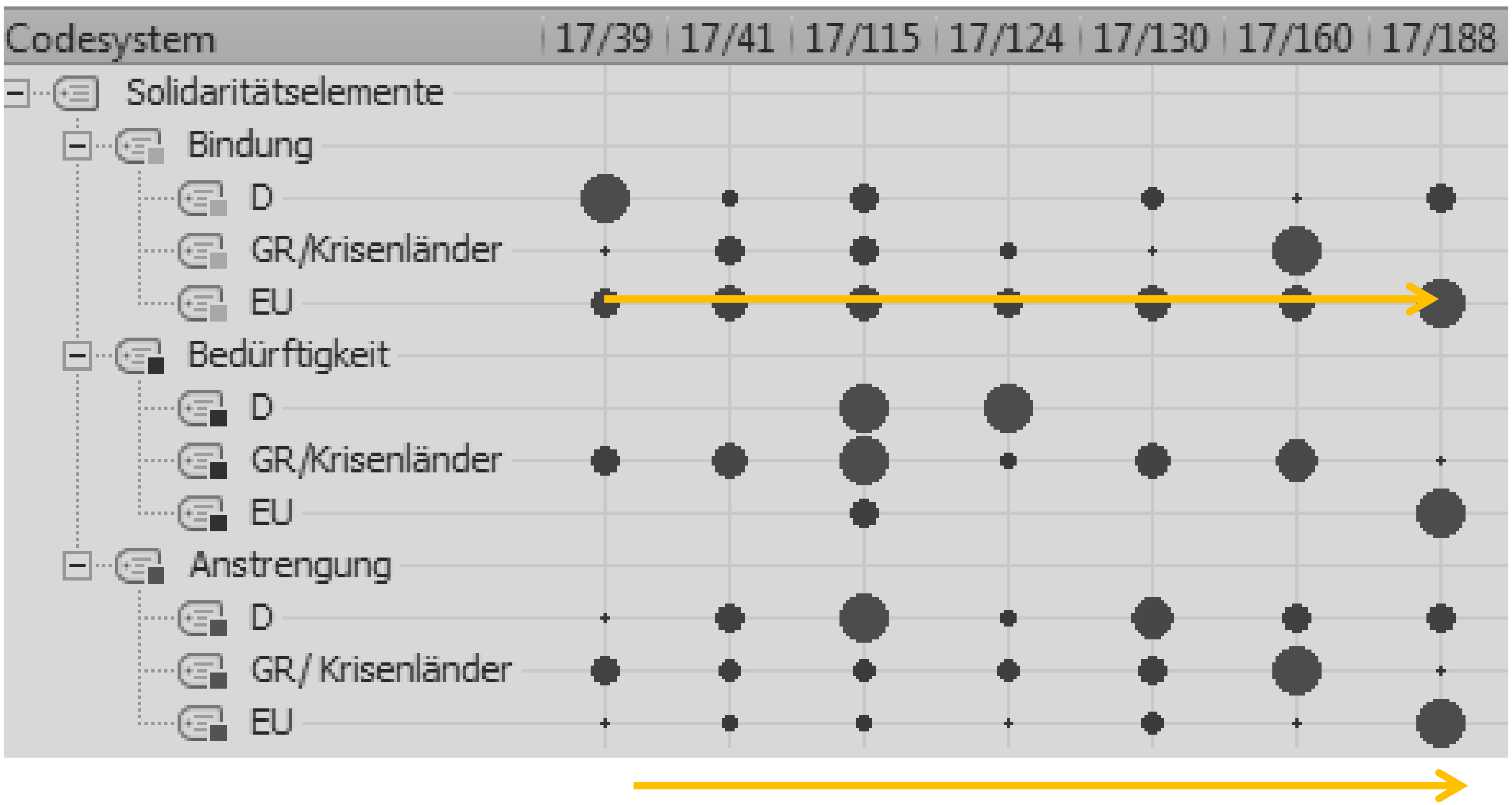
* gezählt in der 115. , 124. und 130. Sitzung im Sommer 2011

Phase 3: Februar 2012: Verteilung der Solidaritätselemente*



* gezählt in der 115. , 124. und 130. Sitzung im Sommer 2011

Solidaritätselementverteilung über alle drei Phasen und Referenzgruppen



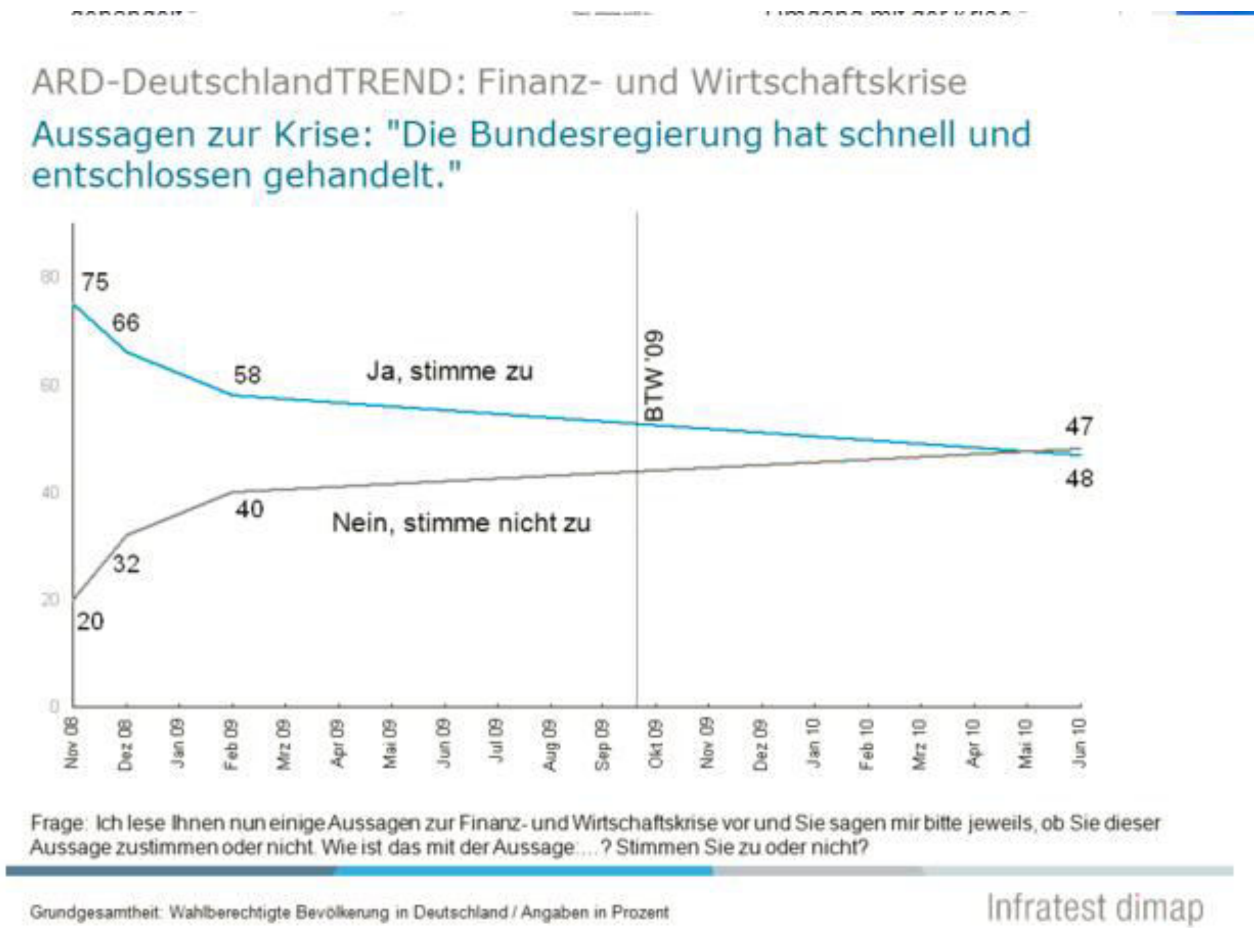
German Public Opinion on Euro crisis: a declining willingness to help

SPIEGEL-ONLINE-UMFRAGE EUROKRISE

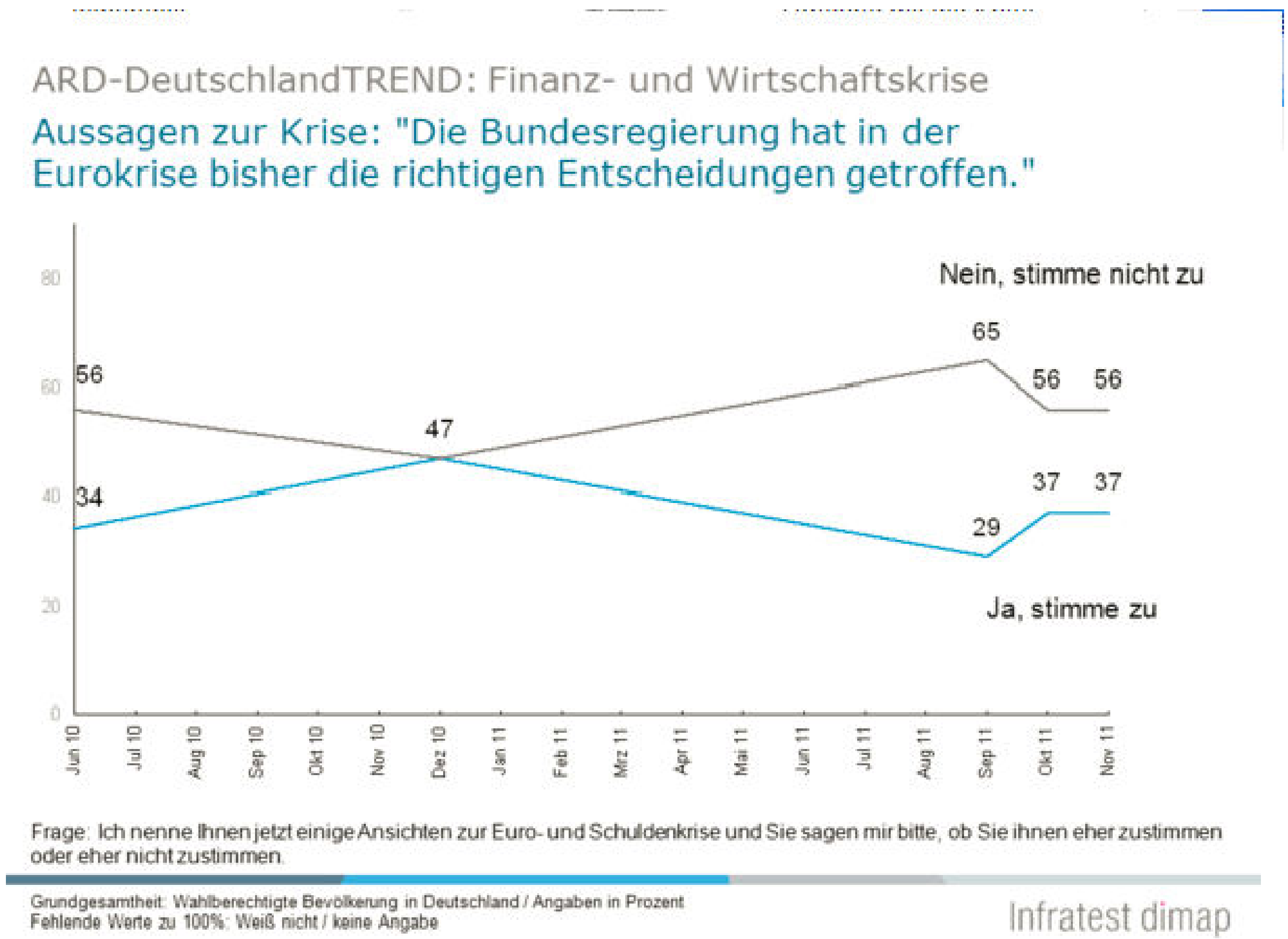
"Würden Sie sagen, Deutschland muss weiter um die Euro-Rettung kämpfen, auch wenn hierfür weitere Milliarden notwendig sind, oder sehen Sie nach den Entwicklungen der letzten Monate kaum noch Sinn darin?"

TNS Forschung am 3. und 4. Juli 2012; 1000 Befragte ab 18 Jahren;
Angaben in Prozent; an 100 fehlende Prozent: "Weiß nicht" oder keine Angabe

German Public Opinion on Euro Crisis: declining trust in Merkel government‘s capacity to ac decisively



German Public Opinion on Euro Crisis: declining trust in Merkel government's capacity to take right decisions



Limits of the German-French intergovernmental approach to solve the Euro crisis

French President Nicolas Sarkozy, Speech in Toulon 2 December 2011

- “the reform of Europe is not a march towards supra-nationality.(…) The crisis has pushed the heads of state and government to assume greater responsibility because ultimately they have the democratic legitimacy to take decisions. (…) The integration of Europe will go the intergovernmental way because Europe needs to make strategic political choices”.

German Chancellor Angela Merkel, Opening Speech for the new School year at the College Europe in Bruges, 2 November 2010

- The Lisbon Treaty has placed the institutional structure on a new foundation. The Treaty of Lisbon lays down that the member states are the guardians of the treaties. This means it is the member states which decide that the Union has competence for some thing, if they believe the problem can be better dealt with at European level. Consequently, the community method does not serve to transfer competences to European level, it is rather a method of ensuring that competences which have been transferred are exercised well, properly and efficiently. Where there is no community competence, the community method can clearly not be applied.

Indicators of the intergovernmental response to the Euro Crisis

Lisbon Treaty (TUE, Art. 15.3): "the European Council shall meet twice every six months".

- 2010: 6 times, 8 times if one considers two meeting of the Euro-area member states' heads of government,
- 2011: 7 times, 9 times if one considers also the meetings of the Euro-area member states' heads of government
- 2012 it met six times, any time followed by a meeting of the euro-area member states' heads of state and government.

The **EFSF** consisted of an executive agreement (not a new formal treaty), in the form of a private company established under Luxembourg law, thus authorized to negotiate with its 17 shareholders.

the **Euro Plus Pact**, consisting of a political commitment (a sort if intergovernmental agreement) between the euro area member states, but also open to non-euro area ones (Denmark, Poland, Latvia, Lithuania, Bulgaria and Romania) aimed to foster stronger economic policy coordination.

The **ESM** was thus established as a new treaty among the euro-area member states, endowed of its own institutions, "as an intergovernmental organisation under public international law", to enter into force by January 2013.

German-French intergovernmental and its problems during the Eurocrisis

1. ***Veto dilemma*: how to neutralize oppositions in a decision-making process requiring unanimous consent?**
   – bi-lateral leadership of Germany and France, in the period 2009-2011, was transformed into a compelling *directoire* of the EU financial policy.

2. ***Enforcement dilemma*: how to guarantee the application of a decision taken on a voluntary bases?**
   – Fiscal Compact Treaty (Title VI, Art. 14.2) foresees that it “shall enter to force on 1 January 2013, provided that twelve Contracting Parties whose currency is the euro have deposited their instrument of ratification”.

3. ***Compliance dilemma*: how to guarantee the respect of its rules even when they no longer fit the interest of one or the other of the voluntary contracting parties?**
   – Fiscal Compact Treaty foresees that “where a Contracting Party considers, independently of the Commission’s report, that another Contracting Party has failed to comply with Article 3(2), it may also bring the matter before the Court of Justice. (…) the judgment of the Court of Justice shall be binding on the parties in the procedure”.

4. ***Legitimacy dilemma*: how to guarantee legitimacy to decisions reached by national executives in the European Council/ECOFIN Council that were never discussed or approved, by the institution representing European citizens (EP)?**

Conclusion and outlook

Conclusion

1. Germany‘s response to the Eurocrisis is best explained by a liberal approach focusing on self-interests by German bank‘s interest, public opinion and the politico-legal rulings of the FCC.
2. The financial crisis would have had far worse effects for Germany‘s economy without the Euro.
3. Given the intense cross-cutting domestic and international expectations, Chancellor Merkel‘s crisis managment has been prudent and successful thus far in containing the crisis.
4. Recent events in Cyprus show that the intergovernmental approach taken is insufficient to solve the crisis. Politically and economically the Euro crisis shows that German (-French) leadership alone (without concerted action by ECB, Commission and EP) is incapable of decisively turning the tide in globalized financial markets.

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Märkte fordern Athens Kapitulation

Ratingagentur Fitch drängt Griechenland zur Bankrotterklärung · Risikoprämien steigen dramatisch