
Germany and the €-Crisis

Lecture given at the Central Personell
Administration, Executive Learning Program,

Taipeh, September 23, 2011

Widespread critique of Germany

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

(Quote from Guérot/Leonard 2011: 1).

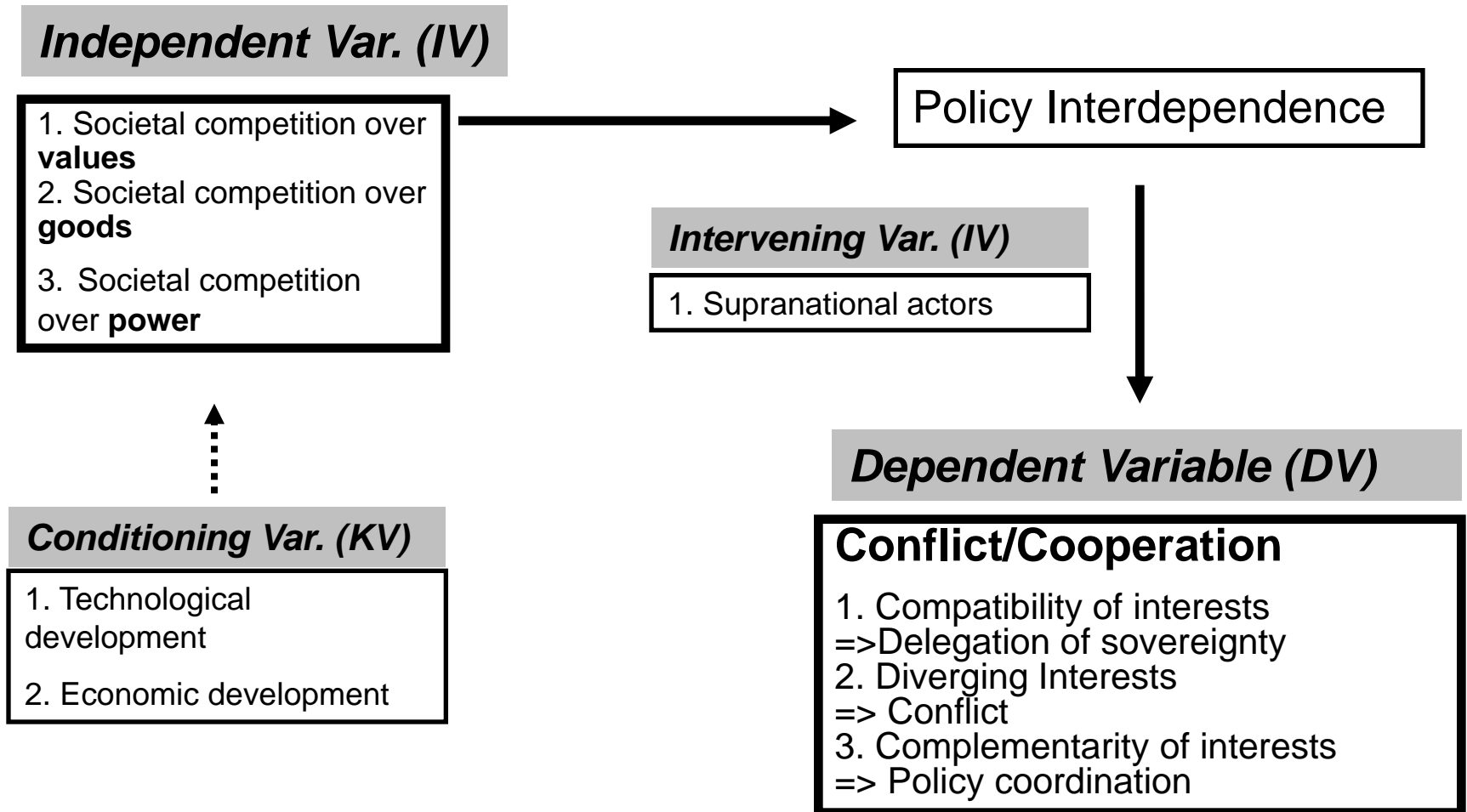
Outline

1. The argument
2. The approach
3. The € + Greek debt crisis: a short history
4. Germany's policy response
 1. Policy trajectory
 2. Public opinion
 3. German bank's exposure in the Euro area
 4. The Federal Constitutional Court Sept. 7 decision
5. Conclusion and outlook

The argument

1. Germany's policy during the Euro-Crisis is driven by domestic concerns and the fear of hazardous commitments for (irresponsible) lender governments.
2. A liberal explanation which focusses on the interests of the (exposed) German banks, public opinion and the rulings of the Federal Constitutional Court explains Germany's policy trajectory best.
3. Interpretations which hold that Germany seeks a (benign) hegemony are wrong:
 - a) They cannot explain Germany's albeit late commitment to become the „creditor of last resort“;
 - b) They cannot explain the specific caveats in the German approach;
 - c) They cannot explain the multilateral character of Germany's policy.

The approach: liberal theory (Moravcsik 1998)

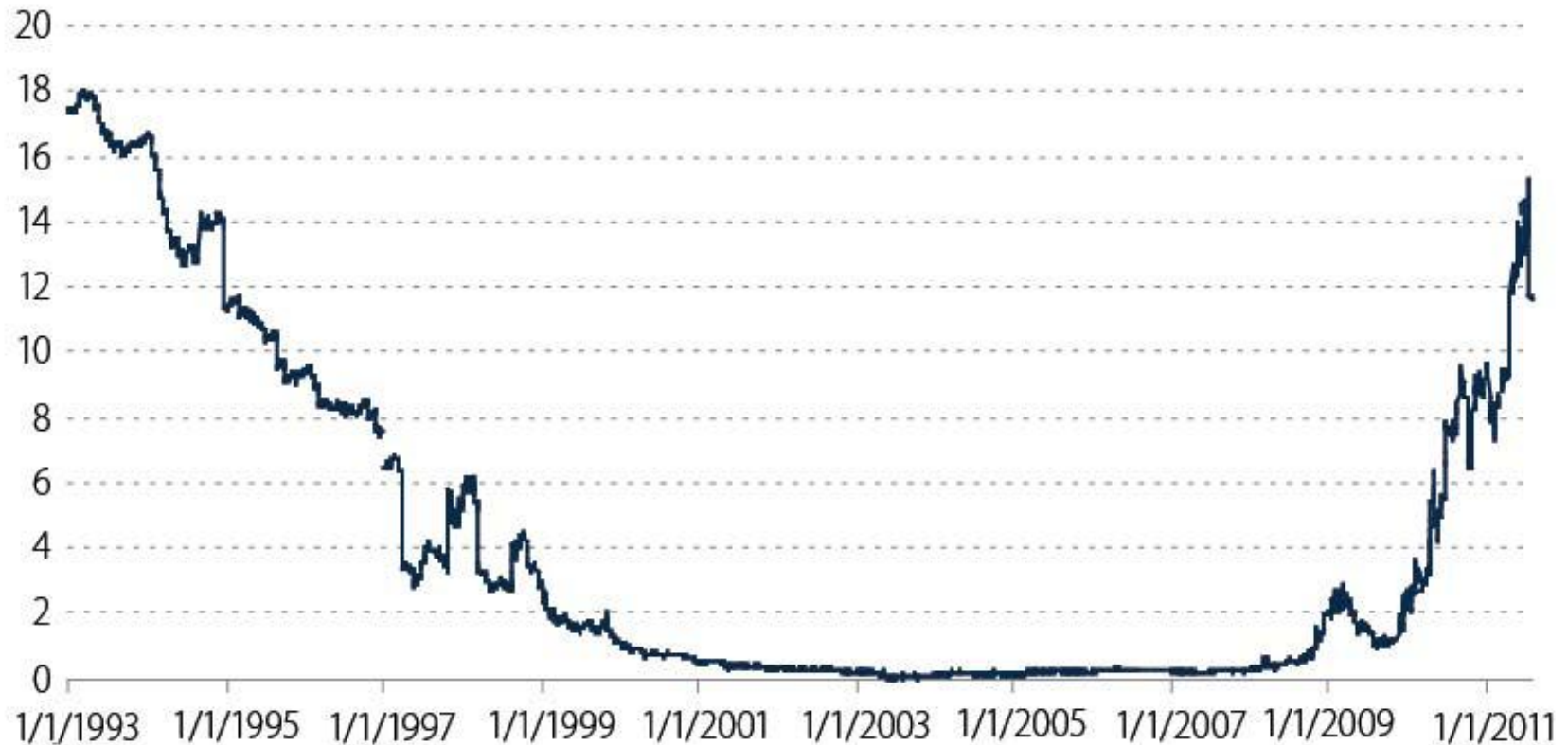


The Euro and the Greek debt crisis:

a short history

Greek Bond Spreads, 1993-2011

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

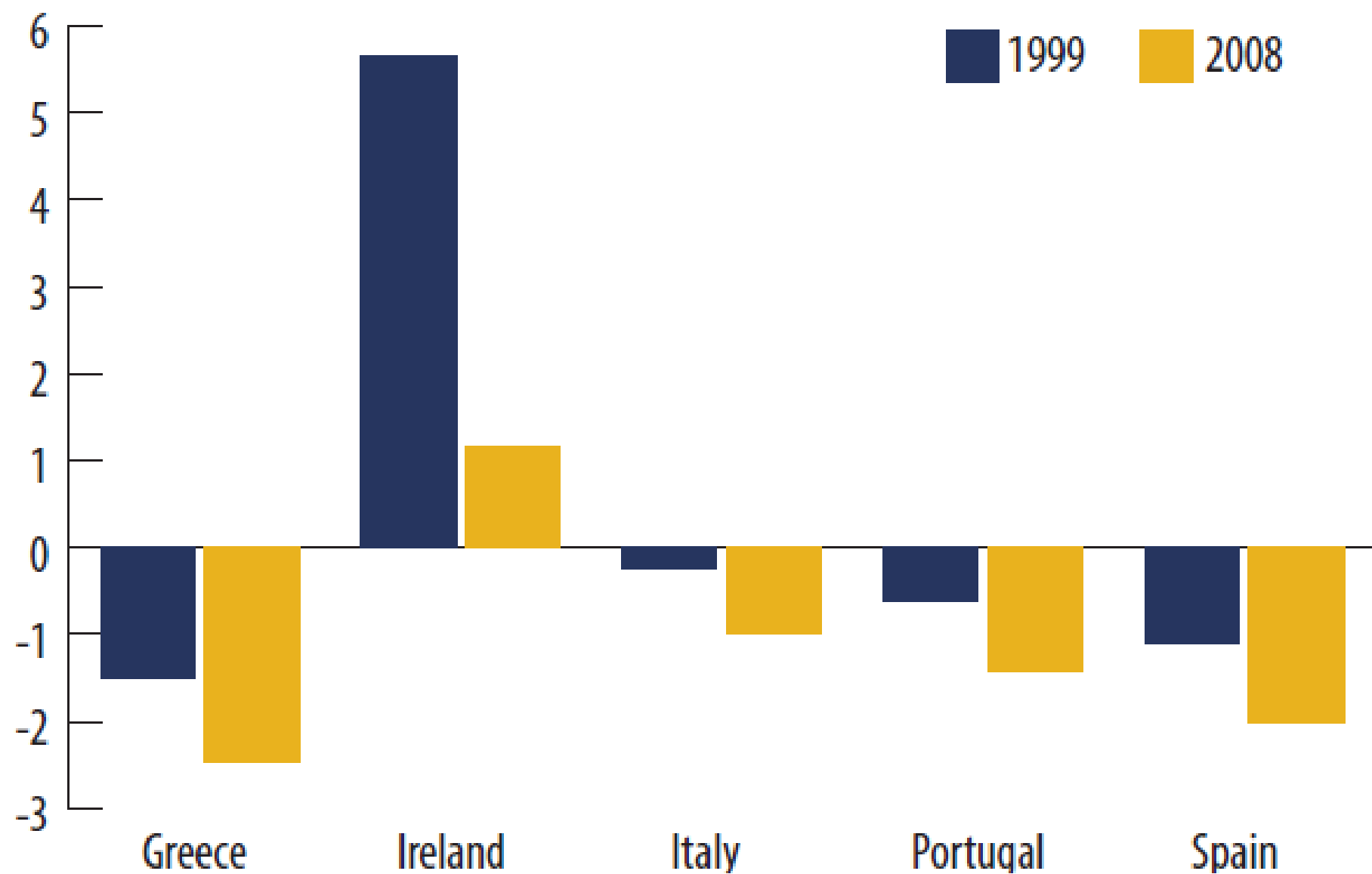


Source: Nelson/Belkin 2011: 5

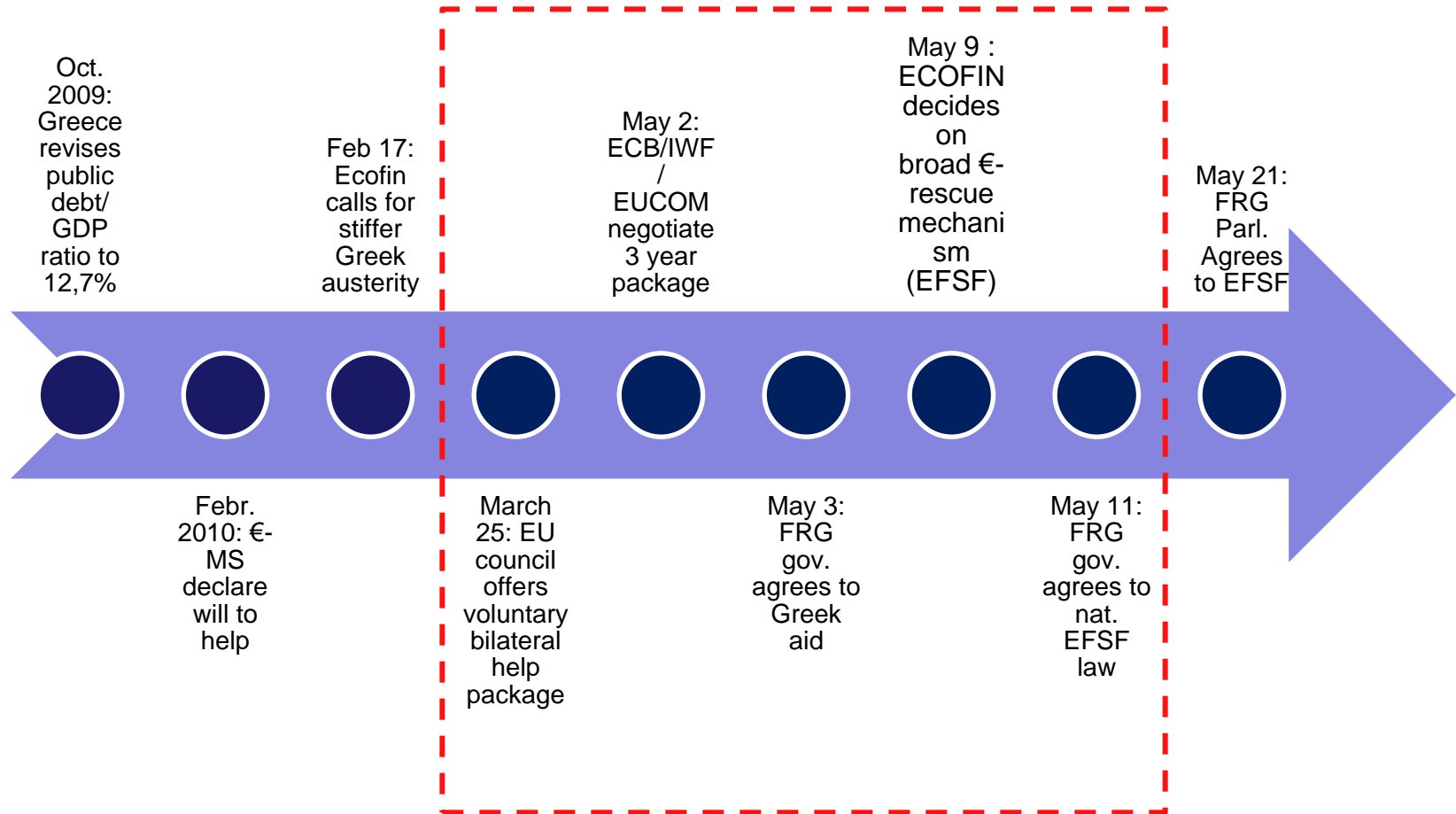
Bilateral Trade Balances With Germany

Source: OECD

Percent of GDP



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



Overview: €-MS stabilization mechanisms

Defenses Against Default

Bailout measures for European crisis countries, in billions of euros

April 2010

Rescue Package for Greece

Total loans made available

€110 bil.

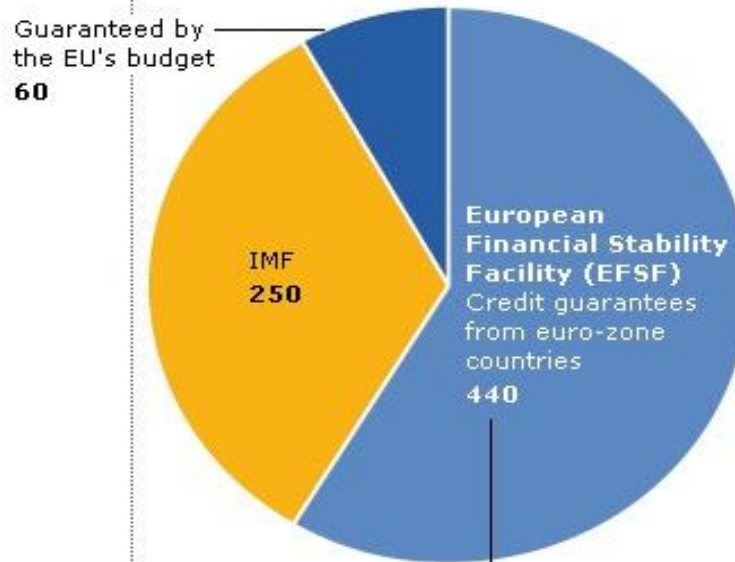


May 2010

EU Euro Rescue Fund

Emergency loans and credit guarantees for troubled euro-zone countries, expires in 2013

Up to €750 bil.



In practice, only €250 bil. of that can be used. The rest acts as security thus far intended for Ireland. Discussions on aid for Portugal are ongoing.

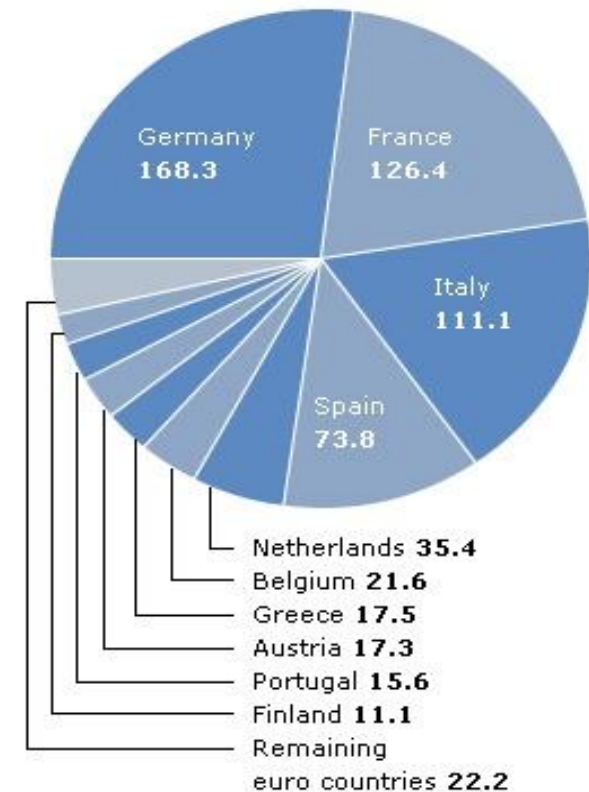
From 2013 onwards

European Stability Mechanism (ESM)

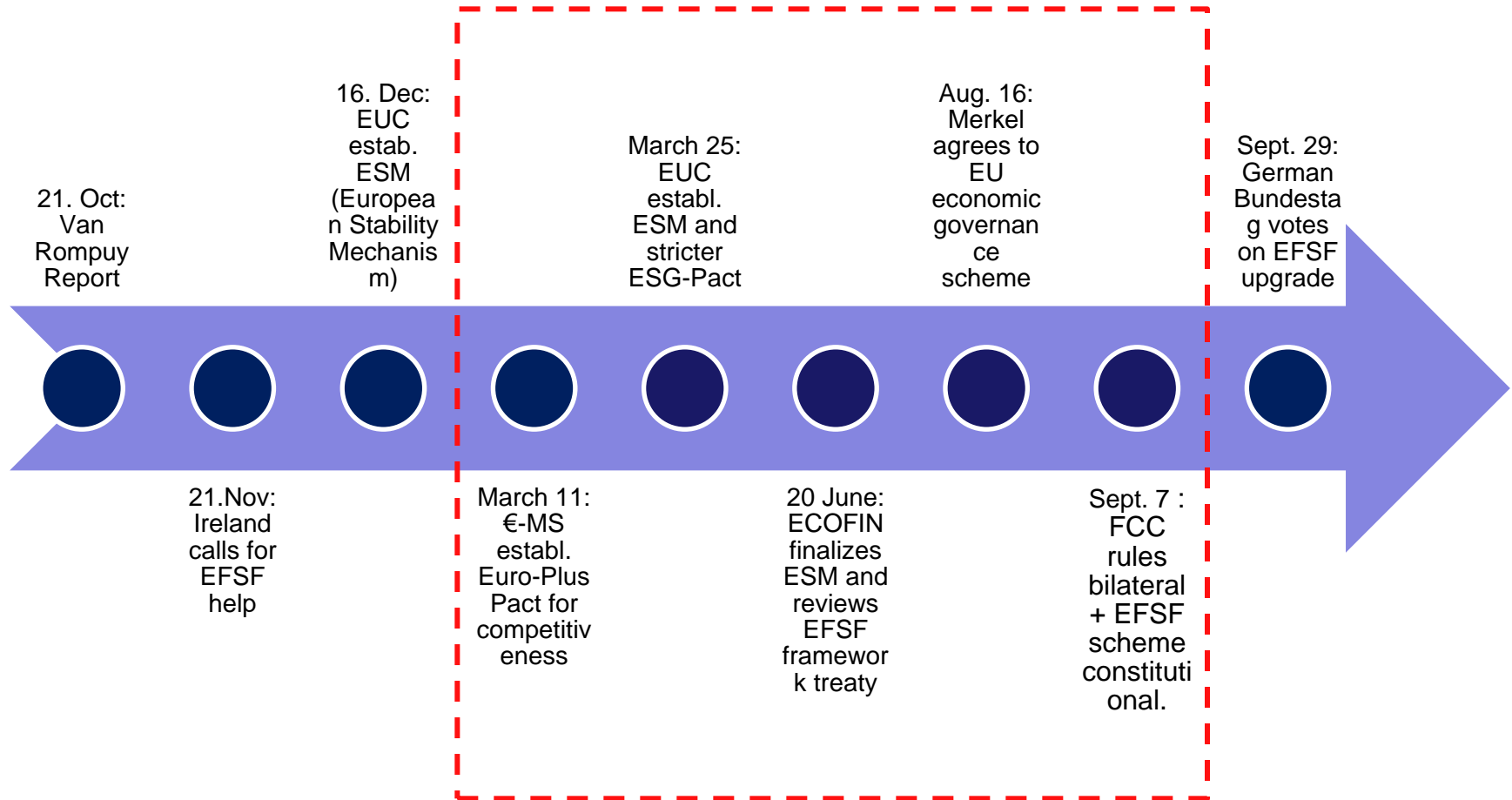
Available Capital / Guarantees

Approximately €620 bil.*

*Including over-collateralization in order to maintain a top rating



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



Art. 136 AEUV (neu)

- Die Mitgliedsstaaten, deren Währung der Euro ist, können einen Stabilitätsmechanismus einrichten, der aktiviert wird, wenn dies unabdingbar ist, um die Stabilität des Euro- Währungsgebiets insgesamt zu wahren. Die Gewährung aller erforderlichen Finanzhilfen im Rahmen des Mechanismus wird strengen Auflagen unterliegen.

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.

Maastricht-Urteil 89, 155 Rn. 146-148

- 146: Die Wirtschaftspolitik der Mitgliedstaaten wird zur Angelegenheit von gemeinsamem Interesse erklärt sowie in ihren Grundzügen durch eine Empfehlung des Rates koordiniert und überwacht (Art. 103 EGV). Art. 104 EGV verbietet auch den nationalen Zentralbanken öffentlichen Stellen oder öffentlichen Unternehmen der Mitgliedstaaten Überziehungs- oder andere Kreditfazilitäten einzuräumen oder Schuldtitel unmittelbar von ihnen zu erwerben. Außer zu Aufsichtszwecken darf öffentlichen Stellen oder öffentlichen Unternehmen der Mitgliedstaaten kein bevorzogter Zugang zu den Finanzinstituten geschaffen werden (Art. 104 a EGV). Art. 104 b EGV schließt die Übernahme von und den Eintritt für Verbindlichkeiten öffentlicher Stellen oder öffentlicher Unternehmen eines Mitgliedstaates durch die Gemeinschaft oder einen anderen Mitgliedstaat aus, so daß ein Mitgliedstaat die Folgen unseriöser Finanzpolitik nicht einfach abwälzen kann. Art. 104 c EGV legt schließlich in Verbindung mit dem Protokoll über das Verfahren bei einem übermäßigen Defizit den Mitgliedstaaten die Pflicht auf, übermäßige öffentliche Defizite zu vermeiden, und unterwirft sie dazu einer Überwachung durch die Kommission. Der Rat kann aufgrund einer Empfehlung der Kommission feststellen, daß in einem Mitgliedstaat ein übermäßiges Defizit besteht, und auf dessen Abbau hinwirken.
- 147: Diese Konzeption der Währungsunion als Stabilitätsgemeinschaft ist Grundlage und Gegenstand des deutschen Zustimmungsgesetzes. Sollte die Währungsunion die bei Eintritt in die dritte Stufe vorhandene Stabilität nicht kontinuierlich im Sinne des vereinbarten Stabilisierungsauftrags fortentwickeln können, so würde sie die vertragliche Konzeption verlassen.

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
<i>Substantial contribution</i>	<i>Substantial contribution</i>	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)

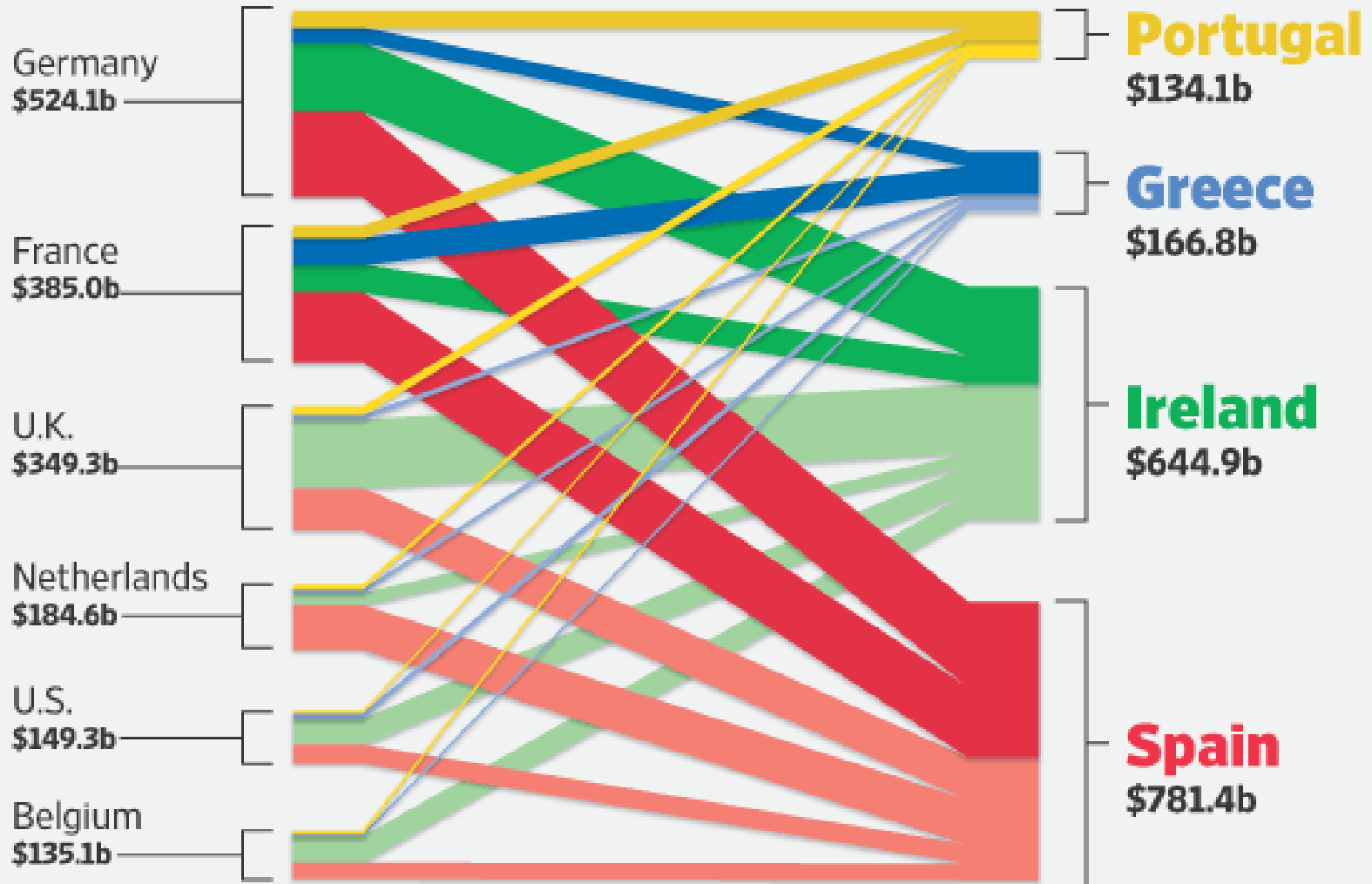
Chancellor Merkel addressing public concerns

„We help Greece, because by doing so we stabilize our common currency overall. We protect the money of the citizens of our country – nothing more, nothing less is the duty of the Federal government and the Bundestag.“

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

Out on a Limb?

Banks' exposure to the debt of Portugal, Greece, Ireland and Spain. Amounts outstanding in selected countries:



Note: Figures are as of Sept. 30, 2009, and are only for countries whose central banks report to the BIS.
Source: Bank for International Settlements

Headnotes of the Judgment of 7 September 2011

1. Art. 38 GG (electoral right) prevents citizens from loss of substantial decision of the Bundestag due to sovereign rights transfer to supranational bodies (BVerfGE 89, 155 <172>; 123, 267 <330>). Safeguarding dimension of Art 38, para. 1 GG will be invoked if the competences of the Bundestag are exhausted to an extent that it does not represent the free will of the electorate anymore.
2. a) The decision on the budget of the public purse is fundamental part of democratic self-determination and government (vgl. BVerfGE 123, 267 <359>). The Bundestag has to decide on all expenses and income. The budget competences is fundamental part of the BT competences (vgl. BVerfGE 70, 324 <355 f.>; 79, 311 <329>).
b) As representatives of the people the parliamentarians must hold fast to the control of the budgetary process.
3. a) 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.
b) 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.
c) Moreover, it has to be clear that parliament has substantial influence of the ways and means of providing the aid.

Headnotes of the Judgment of 7 September 2011

4. European treaties do not stand in opposition to national budgetary competences, in fact, they are based on the assumption of their existence. Strict application of existing European rules does imply that actions by EU bodies have effectual democratic legitimacy (BVerfGE 89, 155 <199 ff.>; 97, 350 <373>). The contractual conception of the Currency union as stability community is the foundation and purpose of the German law requiring approval (BVerfGE 89, 155 <205>).
5. With regard to the extent of the assumption of guarantees, it has to restrict its review to evident transgressions of ultimate boundaries. In this context, the legislature has a margin of appreciation with regard to the probability of having to make payments in a guarantee event, which the Federal Constitutional Court has to respect. Something similar applies to the assessment of the future sustainability of the federal budget and of the economic performance of the Federal Republic of Germany. Taking this legislative priority of appreciation into account, and measured against the constitutional standards that have permissibly been applied, both the Monetary Union Financial Stabilisation Act and the Euro Stabilisation Mechanism Act prove to be compatible with the Basic Law. The *Bundestag* did not deplete its right to adopt the budget and control its implementation by the government and did not disregard the essential content of the principle of democracy.

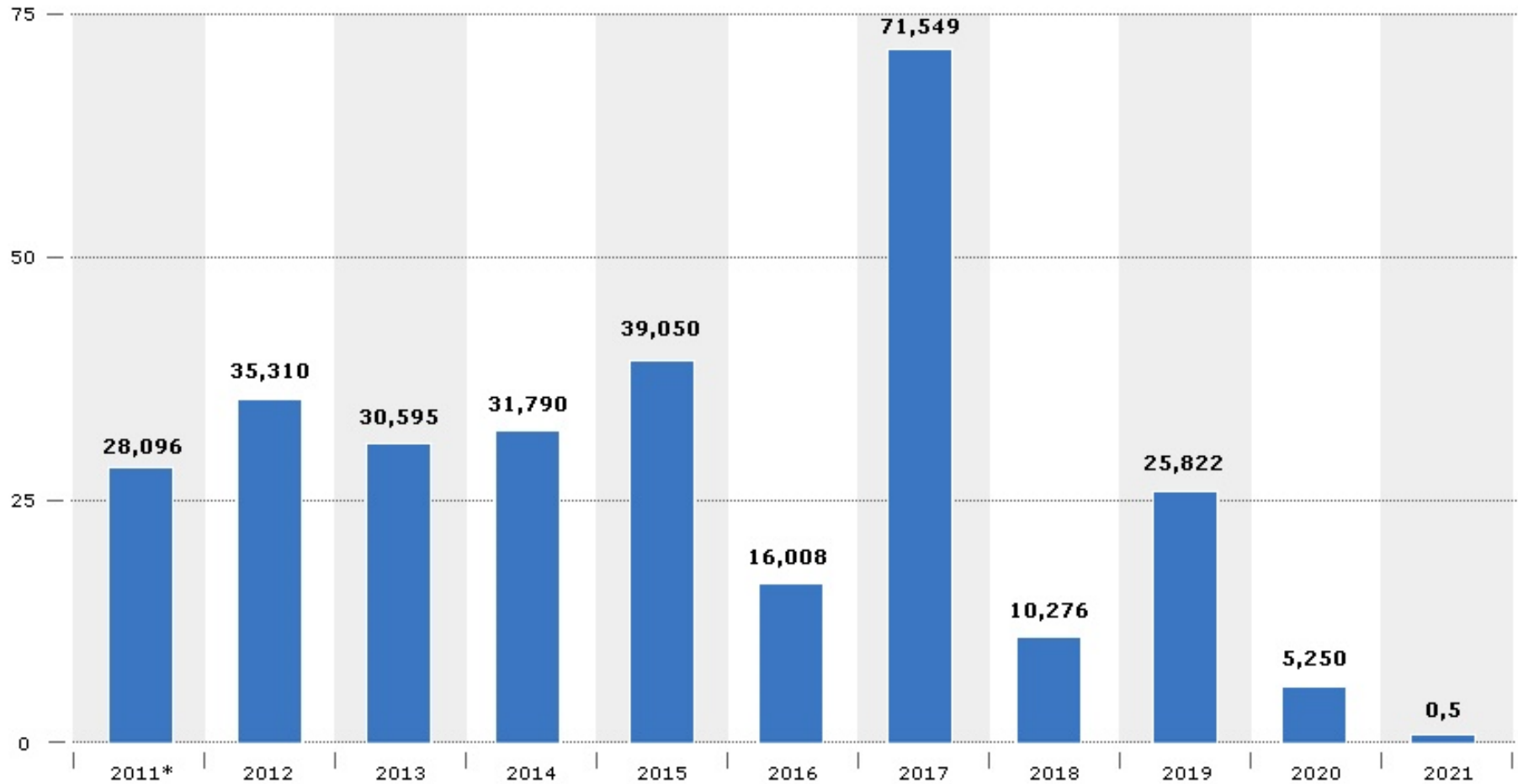
Conclusion and outlook

Conclusion

- A liberal explanation musters far more explanatory power than a realist one when considering the characteristics of Germany's crisis management policy.
- The financial crisis would have had far worse effects for Germany's economy without the Euro.
- Given the intense cross-cutting domestic and international expectations, Chancellor Merkel's crisis management has been prudent and successful thus far.
- A mid-term resolution of the crisis requires far more than active German leadership in the Euro-Zone: rather so-called „market forces“, which bet against the willingness of national governments to commit public money for additional bail-outs, must be reigned in.

Wann die griechischen Staatsanleihen fällig werden

Angaben in Milliarden Euro



Wann die italienischen Staatsanleihen fällig werden

Angaben in Milliarden Euro

