



Björn Hacker und Cédric M. Koch

Reform discourses on the Euro zone

Continuity, expansion or roll-back
in the German debate

politik für europa
#2017 plus

**FRIEDRICH
EBERT
STIFTUNG**

politik für europa

#2017plus

A PROJECT OF THE FRIEDRICH-EBERT-STIFTUNG
IN THE YEARS 2015 TO 2017

Europe needs social democracy!

Why do we really want Europe? Can we demonstrate to European citizens the opportunities offered by social politics and a strong social democracy in Europe? This is the aim of the new Friedrich-Ebert-Stiftung project »Politics for Europe«. It shows that European integration can be done in a democratic, economic and socially balanced way and with a reliable foreign policy.

The following issues will be particularly important:

- Democratic Europe
- Economic and social policy in Europe
- Foreign and security policy in Europe

The FES will devote itself to these issues in publications and events throughout 2015–2017: we start from citizens' concerns, identify new positions with decision-makers and lay out alternative policy approaches. We want a debate with you about »Politics for Europe«!

Additional information on the project can be found here:

<http://www.fes.de/de/politik-fuer-europa-2017plus/>

Friedrich-Ebert-Stiftung

The Friedrich-Ebert-Stiftung (FES) is the oldest political foundation in Germany with a rich tradition dating back to its foundation in 1925. Today, it remains loyal to the legacy of its namesake and campaigns for the core ideas and values of social democracy: freedom, justice and solidarity. It has a close connection to social democracy and free trade unions.

FES promotes the advancement of social democracy, in particular by:

- Political educational work to strengthen civil society
- Think Tanks
- International cooperation with our international network of offices in more than 100 countries
- Support for talented young people
- Maintaining the collective memory of social democracy with archives, libraries and more.

About the author of this edition

Dr. Björn Hacker is Professor of Economic Policy at the Berlin University of Applied Sciences (Hochschule für Technik und Wirtschaft).

Cédric M. Koch works in the Department of Economic and Jurisprudence Sciences at the Berlin University of Applied Sciences (Hochschule für Technik und Wirtschaft) as well as for the Deutsche Gesellschaft für Internationale Zusammenarbeit.

The following persons at FES are responsible for this publication

Dr. Michael Bröning, Head of Department International Political Analysis

Editor: Arne Schildberg, Policy Analyst for European politics

Co-editor: Sabine Dörfler

Contents

2		Summary
3	1	Introduction
4	2	Positioning for a Reform of the Euro Zone in Germany
4	2.1	Carry On! The Main Advocates of a Stability Union
6	2.2	Forwards! Key Advocates of a Fiscal Union
7	2.3	Retreat! The Main Proponents of Rolling Back the Euro Zone
10	3	Determinants in a Reform of the Euro Zone with Germany's Backing
10	3.1	Dependence on the Path of Solutions Opted for in the Crisis to Date
10	3.2	Future Economic Developments
11	3.3	Positioning of the EU Partners and Institutions
11	3.4	A Coalition of Actors in the German Discourse
13	4	Conclusion: The Deceptive Stability of the Status quo
14		Literature

SUMMARY

- In the debate over the future of the euro zone, German actors have been split between supporters of a stability union and proponents of a fiscal union ever since it was established. In contrast to the debate in France and Italy, for instance, the discussion here has at the same time been dominated by the rule- and market-based version of a transnational monetary zone to serve as a stability union. It was in the midst of the crisis gripping the euro zone since 2010 that the conflict erupted again, this time with an added element of a discussion over a roll-back of the EMU that has recently flared up.
- Led by the current and previous Federal government under Chancellor Angela Merkel and her party, the CDU, the advocates of a stability union for the most part favour preservation of the status quo of the EMU architecture. Supported by a clear majority of actors from academia, socially relevant institutions and employers' representatives along with a media landscape that has only sporadically ventured a critical analysis, centre stage in the debate has been occupied by topics like the consolidation of budgets, market-friendly structural reforms and corresponding mechanisms to force compliance at the euro zone level.
- While supporters of a stability union leading the field blame the Euro crisis on failure to stick to the rules and policies harmful to competition in those states hit hardest by the crisis, the much smaller grouping of proponents of a fiscal union point the finger at fundamental flaws in the design of the EMU. Critical scholars, intellectuals and journals along with the trade unions have urged that the EMU be buttressed by elements of cross-border liability and coordinated policies.
- In addition, there is a new group of actors with the potential of obtaining a majority that is very heterogeneous in terms of its composition and its specific demands which rejects both the vision of a stability union as well as a fiscal union. The demand for a reversal of currency integration is being spearheaded by strategies from two diametrically differing angles: conservative-liberal critics associated with the AfD view linkages to purportedly crisis- and debt-ridden states to pose a serious danger to German taxpayers. In contrast, critics from the left of the political spectrum are raising the spectre of an erosion of national welfare states and democracies due to the increasingly radical market approach of the Euro regime.s.
- Only very few factors would be in a position to change the field of debate over the future of the currency union in Germany. In what will soon turn into seven years of crisis, virtually all positions are being expounded by political parties. Solely the SPD does not appear to have committed itself to an extent that could lend wings to the notion of a fiscal union laid down in its party program in the debate. By the same token, because of the failure to come up with a solution to the crisis, the attractiveness of a roll-back of the common currency is bound to mount. Also as a result of the pressure from outside that is to be expected as a result of economic stagnation, political crises and opposition from EU partners, a decision needs to be made without delay in favour of alternative to the deceptive stability of the status quo.

1

INTRODUCTION

The heated nature of debates surrounding the crisis of the euro zone again and again leaves one with the impression that unparalleled controversies dominate the scene like never before. When the positions of the key actors in the internal German debate are traced out in the following, it will become evident, however, that a cornerstone in the sharp dividing line that can be perceived between champions of a stability union and advocates of a fiscal union was laid very early on. What is happening, namely, is that in the area of economic policy an age-old conflict is being rekindled, with trust and faith in a rule-based, self-disciplining market in one corner of the ring squaring off against the conviction that the state must intervene to correct and shape an imperfect market in the other corner.

As far back as the phase in which the Economic and Monetary Union was founded, it became apparent how sharp the dichotomy was between these two economic paradigms for a monetary union. One can characterise the first initiative for a monetary union – the 1970 Werner Plan – as having been dominated by Keynesian notions of economic dirigisme. The idea was, for instance, to synchronise national budgetary procedures, harmonise tax systems and coordinate economic stimulus policy in an economic decision-making committee to be set up at the Community level. Although the report submitted by Commission President Jacques Delors in 1989 calling for a renewed attempt at establishing the EMU, which was undertaken in 1999, pointed to the need for a macro-economic framework and common policy, the monetarist-ordoliberal argument for budgetary disciplining of national fiscal policies has at the same time come to occupy centre stage (Pisani-Ferry 2006).

In the domestic German debate, it is not difficult to identify a majority position for some time now endorsing a rule- and market-based version of a transnational monetary area. Although scattered observers repeatedly drew attention to the dangers of integration of monetary policy if fiscal policy remains a national preserve, aside from a brief flap over the rules governing budgetary policy when Germany violated the pact in the years 2002 to 2005 the internal German debate over the architecture of the EMU simmered down until the euro zone was hit by the crisis in 2010. Calls for more ambitious reform projects from a few

European partner countries were thwarted by Germany. When in the course of the global financial crisis in 2008 the French President and presiding chairman of the EU Council, Nicolas Sarkozy, made the case for a common bank bail-out package and a European economic government, he reaped little applause in Germany. An initiative launched by Italian members of the European Parliament at the same time in favour of common European bonds for major infrastructural projects, once proposed by Jacques Delors, and also advocated by the head of the Euro group, Jean-Claude Juncker, was rejected in Germany by representatives of the Bundesbank and the German government under Angela Merkel. Before a public debate could get underway, the idea was discarded by the European Commission in early 2009. Even an initiative by the French government to strengthen the Euro group through regular joint meetings was brushed aside by Germany before the end of 2009.

The historical schism between backers of a stability union and proponents of a fiscal union emerged again during the crisis (Hacker 2013) and has been augmented by a new position calling for a roll-back of the EMU. All three camps of actors and their arguments are presented in the following chapter. After this, the factors shaping the German debate over a viable reform of the euro zone and the stability offered by sticking with the status quo are discussed on this basis.

2

POSITIONING FOR A REFORM OF THE EURO ZONE IN GERMANY

While the grouping advocating a stability union would like to carry on with the same model of the monetary union as in the past while strengthening its range and closing the gaps in it, those favouring fiscal union are calling for the development of complementary institutions and instruments lacking in the present model to date. Above and beyond this, a heterogeneous field of actors critical in principle of monetary union that formed during the period of the crisis in the euro zone would essentially like to see a (partial) roll-back of monetary integration.

2.1 CARRY ON! THE MAIN ADVOCATES OF A STABILITY UNION

Proponents of a stability union undisputedly hold the high ground in the field of German actors – with the two governments under Angela Merkel's CDU leading the way. Conceived under the CDU-CSU-FDP coalition government, the resolute line of preserving, deepening and strengthening the stability union has also been carried on by the Grand Coalition that came to power in 2013. Under the banner of »budget consolidation and structural reforms to promote growth«, a twin-track strategy was proclaimed and has been pursued since then which in the negotiations over loans with the so-called »crisis states« can be summed up with the dictum of »solidarity only with solidarity«. On the one hand, this strategy of preserving and maintaining the euro zone is an essential element, pointedly couched by Merkel herself in terms of an existential imperative using the words »if the euro fails, Europe fails«. On the other hand, the government camp stubbornly refuses to budge from its rejection of any and all forms of financial communitarisation – as exemplified by the statement of the Chancellor that there shall not be any Eurobond while she is still alive – as well as the insistence on strict conditionality being tied to the rescue packages that have become unavoidable to preserve the euro. The fundamental reasons of the crisis in the euro zone are from this angle to be blamed on the failure to stick to existing rules and economic policies of the crisis states, thereby harming competition. Accordingly, the paramount aim and objective in

combating the crisis and further developing the euro zone has been to correct these purportedly »wrong« policies in these countries and close possible loopholes in the rules.

A whole host of measures along these lines, from the launch of national debt brakes in the guise of the fiscal package to stipulating automatic sanctions while adding new components to it all, debt rules and all the way to laying down structural reforms promoting competition and fiscal consolidation in the Euro Plus Pact and in the European semester as well as the enforcement of these if necessary within the framework of credit assistance programmes. On top of all this, additional reforms continue to be up for debate such as, for instance, an orderly insolvency proceeding for states as well as tools for stronger intervention in national economic policy, including outside the programmes provided for in the European Stability Mechanism such as, for example, the so-called treaty partnerships for structural reforms between Member States and the European Commission.

The key actors on the side of the government past and present in both Merkel governments are the Federal Chancellery, acting as the command-and-control centre for European policy, and the Ministry of Finance, headed by Wolfgang Schäuble. In the case of the Ministry of Finance, this has above all been a question of this ministry's responsibility for this domain – after all, the euro zone involves the currency and the issue of how German tax revenue is used. The key role of the Federal Chancellery can largely be explained by all the most important forums and decisions in the euro zone crisis then and now have been made at the level of the heads of state and government. Only agreements between states at the highest level were capable of producing far-reaching decisions with the required speed and a half-way manageable number of parties in the negotiations.

Although it is by no means inconceivable in principle, the line laid down by the Chancellery and Ministry of Finance has not been aggressively maligned or moderated by any active statements by other important actors in the government. Under the CDU-CSU-FDP coalition, for instance, the Foreign Office under Guido Westerwelle left European policy almost completely in the hands of the

two CDU-led institutions, whilst the FDP-led Ministry of Economics under Rainer Brüderle actively supported the market-based course that had been adopted and under Philipp Rösler generally exercised restraint regarding topics involving the monetary union. This basic line, after the other ministries in charge of the economy had vacated the field, leaving European policy solely up to the CDU, was for the most part continued in the Grand Coalition as well.

The Bavarian sister party of the CDU, the CSU, has played the role of »admonisher« in both coalition governments, at times clambering loudly that no elements of a transfer or liability union must be allowed in the reform of the euro zone. Although it adopted a tone that was considerably shriller and more strongly permeated with grudges against the »Mediterranean states«, the CSU ultimately supported the course staked out by the Chancellor, however, viewing itself more as a corrective against excessive concessions to European partners.

This resolute government line has been and still is buttressed by a whole host of actors from the fields of scholarly research, the media, the business community and society, and above all the troupe of employers' associations. The Council of Experts for the Assessment of Overall Economic Development – the so-called »panel of five wise men« – is considered to have major influence on the economic debate in Germany and is among the main architects and supporters of European policy à la Merkel. Embedded in wide stretches of the ordo-liberal tradition, it provides the theoretical and economic underpinnings both for the specific analysis of the causes of the euro zone crisis as well as the reform course devised in response and aiming at a consolidation and strengthening of the stability union. Other important economic institutes and their representatives can be added to this list such as, for instance, the head of the Munich ifo-Institut for many years, Hans-Werner Sinn, the Cologne Institute for Economic Research or the employer-funded initiative Neue Soziale Marktwirtschaft. Above and beyond this, also deserving mention is the role of the Deutsche Bundesbank, which as a result of its similar economic ideology and its position as a traditional bastion of stability-oriented economic policy offered its support in the debate over reforms of the euro zone. In its capacity as the most important monetary-policy institution in the country and the biggest shareholder in the European Central Bank (ECB), it also has considerable weight in actual political reform processes.

While these actors have espoused this course over the last few years especially out of ideological and economic conviction, employers' organisations such as the Bundesverband der Deutschen Industrie (BDI) or the peak employer's association Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA) have also lent their support to this policy, motivated of course more by interests, as it were. The German export economy profits as a whole from an open internal market and the micro-economic advantages offered by a single currency as well as the undervaluation of the euro in comparison to the alternative »Deutsche Mark 2.0«, which would make products and services »made in Germany« significantly more expensive in the world market and thus pose problems for sales abroad

– so business and industry share an interest in preserving the euro zone. Understandably enough also supported by employers, the focus is on structural reforms to promote competition and gaining acceptance for such reforms in Europe. After all, these include reforms of the labour market and an erosion of labour-market rights which are usually interpreted as business-friendly. This aligns with the same perspective from which Germany's Hartz IV reforms have been and still are touted as the key to Germany's economic success. If the euro zone is now moving closer to the German export model due to outside pressure and internal devaluation in the form of wage cuts, this is from employers' perspective to be welcomed as an additional legitimisation of employer-friendly domestic policy just like attitudes towards the asymmetrical treatment of current account surpluses: these are held to be less problematic than respective deficits, as they are considered to be an indicator of »competitiveness« achieved by virtue of structural reforms.

Wielding particular clout in constellations of actors from academia and employers' groups are furthermore their »stars« in the German media world, who largely back the course taken by the government in the direction of a stability union and do not assume a fundamentally critical position questioning it. This is demonstrated not only by drastic examples such as the widely-read *BILD-Zeitung* with its unforgettable headlines like »You can stew in your own greece!« (Ihr griecht nichts von uns!) in early 2010, but also editorials and reports in *F.A.Z.*, *Welt*, *FOCUS*, *Wirtschaftswoche* or *Handelsblatt*. Nor have *DER SPIEGEL* and *Süddeutsche Zeitung* made much of a contribution to expanding the debate and offering a more prominent voice to criticism of the government's approach in the debate. Only later, in the course of the crisis and in connection with individual topics such as the austerity dogma, has a certain rethinking become discernible in parts of the media.

Furthermore, a heterogeneous series of groupings has been speaking out in the debate with regard to scattered issues that they consider to be game-changers. Thus, for instance, the Sparkassen- and Giroverband in Germany is an important player in discussions over the banking union, enjoying in its self-styled role as guardian of German savers considerable weight in the population and media. The same applies to the *Bund der Steuerzahler* (Association of Taxpayers), which loudly vents its opinion in the discussion over reforms on a regular basis, warning especially against fiscal communitarianisation and lending German tax revenue to crisis states.

Finally, deserving mention is also the fact that German trade unions have at least an ambivalent position in the landscape of actors. On the one hand, they step forward as clear advocates of an alternative vision of the euro zone along the lines of a fiscal union (see the next section), while on the other hand many trade unions, especially IG Metall and IG BCE, are profiting from the buoyant economic situation at present which monetary union brings for German employees in industry and manufacturing. An end to the euro zone and revaluation of the German currency that would accompany it would hit many exporting companies and their employees hard. Especially in the

area of wage-policy coordination within the euro zone, employers and trade unions have spoken out strongly against greater integration of economic policy: any and all attempts in this direction have been stamped as an attack on the autonomy of collective bargaining and for this reason rejected out of hand – ironically enough even though influences at the European level in the current situation have been pressing especially for significantly higher pay to be agreed upon in collective agreements and an end to chronically lagging wages in Germany.

2.2 FORWARDS! KEY ADVOCATES OF A FISCAL UNION

In view of the phalanx of champions of a stability union described in the foregoing, actors in favour of a fiscal and political expansion of the monetary union have had their work cut out for them. Conceiving of the crisis in the euro zone as a manifestation of a design flaw at the heart of the Treaty of Maastricht, which integrated monetary policy without sufficiently doing the same to other areas of economic policy, may well be a truism in other countries. In Germany, however, those urging this route would appear at best to be non-conformist idealists – if not misinformed wastrels. Completing monetary union to rectify deficits that have become woefully apparent during the crisis in essence involves cross-border liability and a coordinated economic policy for the euro zone. It is not difficult to make out that this would be associated with a curtailment of national sovereignty and a major financial commitment on the part of Germany. Entrenched in a position of relative economic strength, the public debate closes its ears to many of the economic and political arguments for an expansion and reform of the EMU to turn it into a fiscal union. For those actors that want to rectify the system failure that occurred in the crisis, on the other hand, leaving it all at a hardening of individual components in the existing EMU architecture is not a sustainable alternative.

Many specific proposals especially from German scholars have been published as far back as when the crisis broke out calling for a broader reform of the EMU. In its essence, the prevailing negative or market-creating integration mode is supposed to be supplemented with elements of positive or market-shaping integration. By the same token, it has been emphasised how insufficient monetary policy of the ECB is in countering asymmetrical shocks. Turning their backs on trust in the adjustment of macro-economic imbalances that goes hand in hand with austerity, deeper fiscal integration is considered to be necessary. This includes specific instruments such as a foreign trade stability pact, different forms of a European debt management and automatic stabilisers for the euro zone in the form of insurance mechanisms or a common budget. To curb and contain asymmetrical shocks and compensate for eroding demand, investment initiatives encompassing Europe in its entirety and close coordination of wage and social policies are furthermore proposed. Because a coordination of policies solely based on rules is considered to not be adequately specific or legitimised, the euro zone will have to be politicised and democratised.

In the public debate in the political arena and media, these notions of fiscal and political integration have only been seized upon in isolated cases, however – usually when neighbouring states or European institutions have directed demands along these lines at Germany. This has been due, and this is still the case, to only a small group of Keynesian or heterodox economists opposing the hegemony of neo-classical or ordoliberal theory. Only scattered representatives of these views work at major research institutes and universities, with those that do being concentrated at polytechnics, think-tanks and foundations such as, for example, the Hans Böckler Foundation's Institute for Macroeconomics and Economic Research. Even if as the crisis proceeded, more and more critical voices were to be heard forwarding proposals for reform in the direction of a fiscal union – worth mentioning here, for example, is the German Institute for Economic Research, but also institutions closely aligned with the political arena, such as the German Institute for International and Security Affairs – these only account for a minority compared to those researchers that hold a stability union to be the optimum solution for the EMU.

Alternative interpretations of the crisis in the euro zone or formulas for progressive changes in the monetary union have accordingly received scanty attention in the news and on talk shows. Well-known intellectuals have tended to be more successful in garnering media attention, for instance Jürgen Habermas, Ulrich Beck or Gesine Schwan. Their formulas are often macro-economic strategies, however, which more strongly emphasise the aspect of political integration and remain general with regard to the economic changes regarded as necessary. Academic concepts – a European unemployment insurance (Dullien 2008), cyclical shock insurance (Enderlein et al. 2008), funds for repayment of old debt (Council of Experts 2012) and the Blue Bond/Red Bond concept (Delpla/von Weizsäcker 2011) – are often very complex models that defy depiction in any simple terms in the media.

Nevertheless, a change in reporting can be witnessed in the German media environment since 2010. The longer the crisis in the euro zone has dragged on and the more unsolvable it has appeared, the more the dominant academic and political position has been discarded and the more frequently critical voices have been heard, increasingly from commentators and interview guests from other countries, such as were featured already at an early point in *Financial Times Deutschland* until it went out of print at the end of 2012. In many print media, like *Handelsblatt*, *DIE ZEIT* or *Süddeutsche Zeitung*, pro and con arguments are juxtaposed on specific reform steps.

Without being politically embedded, media exposure to alternative viewpoints on the crisis in the euro zone inevitably remains weak. Although at the onset of crisis management in 2010 three opposition parties – the SPD, the Greens and the Left Party – were prepared to cast off Merkel's course in the direction of a stability union because they did not believe it to be sustainable, this was only to be expected given the platforms of the three parties calling for an expansion of European cooperation while at the same time roping in the excesses of transnational markets exposed by the financial crisis. In de facto terms, the opposition parties

have appeared to be overwhelmed by it all, however, only recognising late in the game the opportunity offered by a European strategy aiming at fiscal union directed against the CDU/CSU/FDP government. Citing the austerity policy going hand in hand with this, the Left Party's parliamentary party group refused to provide its consent to the rescue package adopted by the Bundestag from loan assistance to the crisis states – except for an extension of assistance to Greece in February 2015 out of solidarity with their fellow party comrades in Syriza, which had just been elected to power. At the same time, the Left Party was not successful, however, in offering a convincing concept for the future of the euro zone in the political debate, as the party itself appears to be split into advocates and opponents of the common currency. The parliamentary party groups of the Greens and SPD vacillated between voting for or abstaining in the first resolutions adopted by the Bundestag in the crisis, but then with the exception of a few renegades swung into line behind the government course beginning in 2011.

Especially remarkable is the behaviour of the Social Democratic Party. With the support of the majority opinion in the German trade unions and backing from most of the welfare associations, it stuck to its programme of fiscal union in a targeted manner at the outbreak of the crisis. The influential former chancellor Helmut Schmidt explicitly called for fiscal and political integration, acting as a link between the party and a host of intellectuals that also backed this course. At a party congress held in Berlin in 2011, Schmidt was speaking to the delegates. He read the riot act to the »crisis Chancellor« to thundering applause from the Social Democrats, urging the latter to live up to their historical, economic and European political task of offering something of substance as an alternative to the flawed narrative of a sovereign debt crisis.

The Party has only responded to this call in sporadic instances, however. At times, it has supported plans sponsored by Keynesian and heterodox scholars as well as the trade unions, for instance suggesting Eurobonds or a new Marshall Plan in the form of a European investment programme. It has also showed an understanding for civil society protest movements – which have remained relatively modest in Germany – like Occupy, which set the cross-hairs on unregulated financial-market capitalism as the main culprit in the crisis of the euro zone. But in the wake of negative headlines and survey results, the SPD leadership usually beat a retreat with its ideas for fiscal and political integration, assuming nebulous positions firmly ensconced in the realm of majority opinion. Overall, then, it can be considered to be within the fold of the CDU-CSU-FDP government's policy.

Upon its entry into the Grand Coalition in 2013, the SPD then abandoned with verve all positions in favour of a fiscal union that it was still clinging to, falling into line behind a stability policy course for the remainder of the legislative period. With the exception of scattered initiatives by the Minister of Economics (see for instance Gabriel/Macron 2015) and the Federal Foreign Minister (see Auswärtiges Amt 2016) as well as the State Minister for Europe (see Auswärtiges Amt 2014), usually in tandem with their respective minister counterparts in neighbouring countries,

particularly France, SPD-led ministries with a say in the reform of the euro zone have touted the line laid down by the CDU-run Chancellery and Ministry of Finance.

Summing up, the camp of supporters for a fiscal union in Germany would appear to be rather lacking in contours. Conceptual strategies for fiscal integration of the EMU, although certainly available, merely account for a minority position in the realm of academia and, because they would mean a shift in paradigm from the current crisis-management approach, are only advocated with passion by a handful of political actors.

2.3 RETREAT! THE MAIN PROPONENTS OF ROLLING BACK THE EURO ZONE

Not all actors in the German debate over a reform of the Euro zone want either a strengthened stability union or a swing towards fiscal union. The constellation in Germany is rounded off by a very heterogeneous grouping that is demanding that the monetary union be dismantled partially or completely rolled back as a needed reform. This view, which did not enjoy much backing before the crisis, has experienced a surge in support over the last few years. The motives underlying this demand can be split up into two diametrically opposing camps: on the one side a conservative-liberal critique of the euro zone, accordingly to which Germany has much too strong economic ties to purportedly crisis and heavily indebted states and hence constitutes a threat to German taxpayers either already at present or in the future. This camp categorically rejects the transfer of sovereignty away from the German Bundestag that goes hand in hand with monetary union. There is a fear that Germany's economic success will be undermined and trepidations regarding fundamental principles of stability such as, for instance, the rescue package during the crisis or the monetary policy of the ECB.

This faction has without a doubt had the biggest impact on the debate so far. Originally the brainchild of Professor Bernd Lucke and Joachim Starbatty as well as ex-BDI President Hans-Olaf Henke, this strategy led to the founding of the »Alternative für Deutschland« (AfD) Party and, following its split, has been laid down both in the AfD's and »ALFA« party platforms. These actors have called at various times for individual members to be expelled (Greece, the crisis states, but also Germany) or the split-up of the monetary zone into economically homogenous parts such as, for instance, a northern and southern euro or a »core euro« with Germany at its nucleus. Over the course of the crisis of the euro zone, members of other parties have also sided with positions like these, however, supporting for example legal action challenging the rescue packages before the German Federal Constitutional Court; in the case of the CSU delegate Peter Gauweiler, this even led to him breaking with his own party. Other defectors such as e.g. Wolfgang Bosbach in the CDU or Frank Schäffler in the FDP pop up periodically in the debate, but in spite of major media exposure have not obtained a large enough following at any point in time to pose a threat to the respective course of the government.

Looking more closely at this grouping, it is striking that in terms of analysis and demands there is considerable overlapping with the camp advocating a stability union. Thus, in various instances key proponents of this line call for (in some cases) the exclusion of certain countries from the euro, most prominently among them no doubt Minister of Finance Schäuble with regard to Greece in the summer of 2015. CSU members such as the Bavarian Minister of Finance, Markus Söder, or the Secretary General and later Federal Minister of Finance, Alexander Dobrindt, have called for Greece in particular to be excluded from the euro zone: a demand in which they are also supported in part by scholars such as Hans-Werner Sinn or his successor as head of the ifo-Institut, Clemens Fuest. Attacks against the policy of the ECB to preserve the currency union in some cases also take on dimensions bearing similarity to the camp of opponents to the euro in the vicinity of the AfD. This view is shared inter alia by political actors such as the ex-President of the Bundesbank, Axel Weber, or the ex-ECB Chief Economist, Jürgen Stark, both of whom resigned in protest against the policy of the central bank.

This faction of advocates of winding up the euro contrasts fundamentally with the criticism of the euro zone coming from the left of the political spectrum. From the latter's perspective, the monetary union in its current variant of a stability union, which has been reinforced by crisis policy, is an arrangement which as a result of its liberal market nature contributes to an erosion of national welfare states and undermines existing mechanisms to contain detrimental social and democratic results produced by the market, thereby threatening to shake European cohesion at its roots. Among other things, criticism is levied against the substantial privileges afforded to market actors such as banks and companies operating at the international level in the European project as well as a tendency within the monetary union to impel members to adopt a competition-based course in conformity with the market. The lack of supranational elements to combat tax competition and the perceived downgrading of social aspects and employee interests while a competitiveness mantra is chanted enshrining deregulation and liberalisation are according to this view equally problematic results of a half-baked euro zone as is the muscling through of an austere fiscal policy and the de facto acceptance of long years of mass unemployment and stagnation across large stretches of Europe. The manifestation of these aspects in crisis and reform policy and the imposition of an economic policy that is viewed to be unsocial, uniform and supply-sided in a Union in which there are – rightly so – different models of capitalism casts fundamental doubt on the legitimacy of the monetary project. Because the ability of the EMU to carry out internal reform and the presence of political majorities required for such is questionable, it is recommended that the monetary union be dismantled.

This view has been forwarded in a particularly cogent manner by the Director of the Cologne Max Planck Institute for many years, Wolfgang Streeck (2013), who has been making a case for at least a partial return to national currencies since 2012 in order to be able to put an end to the skewed deflationary policy, which from his perspective is a

logical consequence of a monetary zone conceived along liberal market lines and that has been drastically radicalised in the crisis. The euro in its current manifestation leads to Europe being split up between debtors and creditors, condemning a whole host of countries to economic stagnation, while Germany profits from it all – a situation that cannot be sustainable over the medium term. Additional advocates of this approach from academia and the media such as the political scientist Martin Höpner, the economist Heiner Flassbeck or the journalist Wolfgang Münchau have subscribed to this analysis and position in various ways over time and view at least a partial dismantling of the euro zone to be the sole sustainable and realistic solution. In the political arena, this case has been made above all by a wing of the Left Party and injected in the debate by the party's former Chairman, Oskar Lafontaine, in 2013. Since then an internal dispute has been raging between different wings of the party, with one grouping around Gregor Gysi championing the euro squaring off against a host of persons behind the current Chairwoman of the parliamentary party group, Sahra Wagenknecht, who is now also calling for the euro to be abandoned. While this bleak view on the euro is being discussed in the trade unions and among other critical actors in the field of scholarly research and the media, this grouping has thus far at least not come to the conclusion that the euro itself is the problem and should therefore be sent to its grave.

With all the differences that have evolved, the opposing political poles among advocates of dismantling the euro have one thing in common: criticism of the crisis and reform policy, which in their view has gone in the wrong direction and is from a democratic perspective profoundly problematic. While one side laments the stealthy introduction of a transfer and liability union at the expense of Germany, their opposite number is rebelling against the demolition of Europe's welfare states, the cementing of disparities between successful creditor states and stagnating crisis countries through the common currency and against the democratic disempowerment of the crisis states. Both poles dismiss the further development of the euro zone along the lines of deeper integration as a possibility – either because this would be undesirable and would mean additional losses of sovereignty over German tax revenue, or because a correction of the unsocial euro construct does not have any realistic chance of fruition in view of experience to date.

Beyond these commonalities this block of actors exhibits a key characteristic, however: they are extremely divided both in terms of their analysis of the causes as well as their conclusions and demands based on this analysis. There is thus no consensus whatsoever over whether the right answer would be complete liquidation of the euro zone, its split-up into different currency regions or only the expulsion of individual countries. The modalities of the transition also remain controversial: while some actors consider the introduction of parallel currencies to be absolutely essential, others plea for the immediate institution of national means of payment. The question – also politically important – as to what economic upheavals this would bring about and hence what spill-over effect there would be on other aspects

of European integration such as freedom of capital or the internal market is also assessed very differently in some cases. Conservative-liberal critics moreover regularly run the danger of degenerating into an openly nationalist narrative towards the crisis countries or fanning the flames of resentment against the European project, a drastic example of which is the AfD. Both camps have in common that they are legitimately criticised for groping for populist, simplistic solutions, which has constituted a significant obstacle to this current of actors becoming a mainstream force capable of aggrandising a majority in the political debate thus far.

3

DETERMINANTS IN A REFORM OF THE EURO ZONE WITH GERMANY'S BACKING

On the basis of the three groups of actors discussed in the foregoing and their main demands, we can distinguish between four determinants in a reform of the EMU that is seen as viable in the German debate and could also be forwarded as a promising direction in Brussels. These determinants are:

1. Dependence on the path of solutions once implemented in the crisis;
2. Economic developments;
3. The behaviour of EU partners and EU institutions in view of Germany's positioning;
4. Coalitions of actors organising discourse hegemony.

3.1 DEPENDENCE ON THE PATH OF SOLUTIONS OPTED FOR IN THE CRISIS TO DATE

For Angela Merkel and the dominant government position in the discourse, a volte face in the crisis of the euro zone and a swing towards notions of fiscal union or break-up of the euro zone scarcely constitute an option any longer. The appearance of the AfD on the political scene means that the roll-back position on the right of the political spectrum is already occupied, only allowing the CDU to concentrate on its calling card of coordination of European policy in the EMU – understood primarily in terms of budget policy. The CSU, on the other hand, wants to continue its watchdog role guarding against greater communitisation, also in view of the votes being captured by the AfD, which means that the fiscal union position of the CDU is a dead letter as well. What is more, an abrupt U-turn would discredit the course steered by the Chancellor thus far.

The conservative parties will therefore most likely not venture away from the path opted for in the management of the crisis since 2010. On the one hand, they have themselves to thank for it all, as down to the present they have justified their measures to cope with the crisis to the public as »without any alternative«. Secondly, no compelling alternative vision of a stability union has been able to gain currency in the political arena, civil society or the media. The enduring nature of the crisis and fundamental new conflicts regularly

flaring up between European partners have tarnished the stability camp's »prerogative of interpretation«, but zig-zagging actors advocating fiscal union have profited less than the advocates of a hard break with European policy in the form of a roll-back of integration to date. Even though as discussed this group is more heterogeneous than the proponents of fiscal integration, its proposals are much more attractive due to their radicalness in the eyes of sections of the population disenchanted with the Merkel crisis mode.

On the left of the political spectrum, above all the SPD has had to wrestle with the problem posed by dependence on the path once taken. It has not been possible to argue for a course inspired by the objective of fiscal union any longer in the public debate, including as a consequence of the state policy of crisis management laid down by the CDU-CSU-FDP coalition government. The cleft in the SPD between its party program and actual political actions when it comes to the future of the euro zone has not been bridged yet, reflecting the fragmentation characterising fiscal unionists and grid-locked public opinion in the German debate over the crisis.

3.2 FUTURE ECONOMIC DEVELOPMENTS

A second determinant in an EMU reform capable of obtaining a majority in Germany is economic developments. In contrast to what worrying reports on the situation of the euro zone and many of its Member States would suggest, the German population does not perceive any deep crisis. In the collective minds of Germans, the global financial and economic crisis has been relatively mild as a result of the specific model of the Social Market Economy and resolute intervention and steering of the Grand Coalition at the time. Years of self-doubt as to the future viability of the »German model«, played up by the media as it were, has given way to self-satisfaction as the predominant mood at the industrial core, from employee co-determination all the way to export surpluses being taken for granted. The economic woes being experienced in the periphery of the euro zone, but also plaguing Germany's neighbour, France, have been successfully branded as »their own fault« in the political arena. This explains the lack of understanding for the

never-ending crisis, which although impacting Germany in the form of relative low growth rates, is scarcely perceived in a conscious manner by the population.

The German economy has concentrated more on selling export products in the world market since the collapse in demand in other European countries with the onset of the crisis of the euro zone. If a politically induced enduring stagnation in the EMU coincides with a slump in the global economy, it could lead to an economic downturn in Germany as well. This may boost willingness to consider alternative crisis modes. It remains unclear, however, whether European cooperation would receive a new chance as a result of recession in Germany or whether the apologists championing a return to the national state would be reinforced by a throng of additional supporters. The latter is not improbable, as one can foresee that an answer to the »debt question« in an economic crisis – prepared by long years of debate – would be found in the lagging willingness of European neighbours to carry out reforms. This can already be discerned at present in the form of the discontent being expressed by the population over ECB policy. Low interest on savings is not being discussed as a consequence of the restrained fiscal policy crisis course conceived in Berlin, but rather ascribed to a monetary policy that damages »us« and benefits the crisis states in spite of their transgressions.

3.3 POSITIONING OF THE EU PARTNERS AND INSTITUTIONS

Not only internal German factors bear relevance to the formation of a reform position towards the EMU by Germany. The behaviour of European partner countries and EU institutions may be decisive. Although the German government has had its way in negotiations in Brussels pretty much across the board with its vision of a stability union, this vision is a far cry from being shared by all the actors in the European round. On the contrary, a majority of countries can be identified that are seeking a fiscal union, at least over the medium and long term. Here as well, the longer the crisis lasts, the more loudly the call for alternatives to austerity and internal devaluation. And in contrast to Germany, ongoing stagnation with high levels of unemployment in the crisis states ensures a keen awareness of the crisis and pressure for change. Thus, the electoral gains registered by radical leftist parties in Greece, Portugal and Spain and their membership in coalition governments there pose an antithesis to the dominance of the stability approach and at the same time the genie that Merkel herself let out of the bottle and cannot get back in. The banking union was initiated in the face of opposition by German interests through a skilful alliance between the governments of France, Italy and Spain. A similar approach could find copycats in the direction of fiscal union in future reform plans. The aggressive stance of the Italian government in coping with refugees and the spill-over onto topics relating to monetary union (i. e.: »refugee bonds«) in the EU emanates from the mounting internal political pressure resulting from a crisis policy perceived as being both wrong

and foisted upon Italy. Whether and how long this all remains limited to demands for stronger fiscal integration cannot be said. Leftist parties in EU partner countries have for some time now been facing the question as to whether they should resort – not void of frustration – to a roll-back of the euro zone in order to preserve their welfare states.

The reform agenda of the EMU is also being castigated by the European Commission. After an initial run-up to wide-ranging institutional changes in 2012 had to be seen as a failure, the President of the Commission, Jean-Claude Juncker – with the support of the European Parliament and the ECB – would like to move forward with his reform paper presented in 2015 while introducing elements of a fiscal union (Juncker 2015). The German government found itself forced – if under protest – to tolerate the more relaxed implementation of the stability pact successfully brought about by the Commission. The IMF and OECD are also applying pressure to the German stance of a »lack of any alternatives« by drawing up a critical balance sheet on their own recommendations in the crisis, which had for some time been aligned with those of Germany.

Above and beyond this, Germany could see itself in a tight spot if right-wing populists and opponents to the euro continue to register successes in elections in many euro states. Fear of an impulsive, one-sided roll-back of the euro zone could unleash a discussion over whether the solution is a giant leap forward in integration or, on the other hand, a controlled multi-lateral roll-back. A first taste of the possible economic and political disarray triggered by unilateral centrifugal movements can be seen in developments in the wake of the outcome of the Brexit referendum held on 23 June 2016.

3.4 A COALITION OF ACTORS IN THE GERMAN DISCOURSE

The fourth determinant in the positioning of Germany regarding more far-reaching reforms of the euro zone is coalitions between groups of actors that are all successful in having a sustained impact on the discourse. Academia will probably remain the most static voice in Germany. Although the group of Keynesian or heterodox economists may increase in number and internationalisation of scholarly work may blow a fresh wind into faculties, the long shadow cast by ordo-liberalism will not dissipate that quickly. The presence of this school of thought in many relevant groups of actors continues to lend credibility to the vision of a stability union. Even though the Chancellor has gone down for the count as a result of Europe's inability to solve the plaguing problems of the refugee crisis, she will be able to rely on the closed ranks of the stability camp in the foreseeable future.

There could be movement in the debate if mounting economic uncertainties lead German business to ratchet up pressure on policy-makers through employer's associations to steer things in the direction of fiscal union, as recent position papers such as that of the BDI (2015) would suggest. This could in particular lead to a correction in the course within the CDU. On the other hand, the

solidification of intergovernmental European interventionism in national economic and social policies in the trade unions distilling out of the ad hoc crisis mode could shift tendencies in the direction of a roll-back of the EMU – out of fear that national employee rights and the achievements of the welfare state might have to be sacrificed. This would once again influence the future course of the SPD.

Fundamentally speaking, the positioning of the Social Democratic Party is the crucial key to whether a reform debate gets under way and in what direction it goes. All other political forces are too weak to be able to forcefully posit a departure from the perspective of a stability union in the debate. The Greens, Liberals and the CSU would probably not attach priority to any fundamental reorientation of European policy in conceivable coalition negotiations with the CDU in 2017 due to internal political considerations. It is very likely that support will continue to swell for the camp of advocates of a roll-back of the EMU as long as there are no viable solutions for the euro zone in sight. Additional actors could be tempted to divert this groundswell of support in their direction by adopting a comparable position – a phenomenon that can be witnessed between the AfD and the established parties over asylum policy. But the heterogeneity of actors and demands being forwarded by the roll-back camp will prevent a majority crystallising in spite of commonalities in the current constellation. What is important for the SPD, then, is: Just like the minority position of fiscal unionists has been due in large part to the alternating positioning of the party in the debate since the onset of the crisis, it could now – either in the form of a repeat of the Grand Coalition, or even a coalition government made up of the SPD, Left Party and Greens – fuel a departure from the status quo.

4

CONCLUSION: THE DECEPTIVE STABILITY OF THE STATUS QUO

The German debate over the reform of the currency union has the semblance of a frozen landscape. The realisation of a stability union is based on a stable grouping of actors and profits from the relative mildness of the crisis as perceived by the German population. As long as growth and employment in Germany remains higher than in many neighbouring states, a change in the crisis course in spite of a stagnating economy, deflation and high levels of unemployment in many crisis countries is highly unlikely. If another major crash does not take place in financial markets or in the global economy which causes the economic situation of the euro zone and Germany as well to unravel, the stability vision could continue to stumble along mired as it were in persisting stagnation: the crisis would not be bad enough for sufficient pressure to build in neighbouring states and within Germany to lead to a swing in the direction of fiscal union. But at the same time the economic situation could be perceived as insufficient to contain the continued rise of radical proponents of roll-back.

This is precisely where the danger of sticking to the status quo lurks: The stability union cannot help quickly surmount the crisis in the euro zone, nor does it have sufficient instruments to prevent or mitigate the next crisis. The sustainability of the approach produced by the German debate is an illusion. It is foreseeable that the question of expansion or roll-back of the currency union

will become ever more pressing. The growing attractiveness of the camp of those supporting a roll-back reflects the political explosiveness of the situation.

It would therefore be advisable to make a decision in the near future on whether to steer towards a fiscal union or to terminate the project of a common currency. Both scenarios are replete with imponderables and uncertainties that are difficult to assess. Both approaches face tough going in establishing a secure footing in the German debate not only due to the dominance of the stability version, but also because a departure from the currency union could cast doubt on Germany's openness to integration or because a fiscal union would very probably be associated with an end to Germany's privileged position in the EMU and a loss of sovereignty and financial transfer. This would have to be explained to voters!

It is not helpful in this context that many actors in both camps are oversimplifying things with an idealistic world view by either promising that the end of the euro or the establishment of a »United States of Europe« would solve all the problems being faced at the moment. The point of departure for a progressive reform of the euro zone, on the other hand, would be to spell out what prospect reform would offer in terms of proper functioning of the monetary union. These prospects would have to be measured in terms of their realistic chances of overcoming the deceptive status quo – because it cannot hold for ever.

Literature

Auswärtiges Amt (2014): Joint statement of the Ministers for European affairs of France, Italy and Germany: For a European Union of values and solidarity, of prosperity and competitiveness (30.07.2014); http://www.auswaertiges-amt.de/cae/servlet/contentblob/682830/publicationFile/195152/140730-StMR-Desir-Gozi_Erklaerung.pdf (called up on 29 June 2016)

Auswärtiges Amt (2016): Gemeinsamer Beitrag des französischen Außenministers Jean-Marc Ayrault und Außenminister Frank-Walter Steinmeiers: Ein starkes Europa in einer unsicheren Welt (24.06.2016); <http://www.auswaertiges-amt.de/DE/Infoservice/Presse/Meldungen/2016/160624-BM-AM-FRA.html> (called up on 13 July 2016).

BDI (2015): Die Vollendung der Wirtschafts- und Währungsunion. Reformoptionen in der Diskussion. Integrationsbericht Europa; http://bdi.eu/media/presse/publikationen/Vollendung_der_EWWU_September_2015.pdf (called up on 29 June 2016).

Delpla, Jacques / von Weizsäcker, Jakob (2011): Eurobonds. Das Blue Bond-Konzept und seine Implikationen. Berlin: Friedrich-Ebert-Stiftung, June 2011.

Dullien, Sebastian (2008): Eine Arbeitslosenversicherung für die Eurozone. Ein Vorschlag zur Stabilisierung divergierender Wirtschaftsentwicklungen in der Europäischen Währungsunion. SWP-Studien 2008/S 01, February 2008.

Enderlein, Henrik / Guttenberg, Lucas / Spiess, Jann (2013): A Blueprint for a Cyclical Shock Insurance in the Euro Area. Paris: Jacques Delors Institute Note Europe, September 2013.

Gabriel, Sigmar / Macron, Emmanuel (2015): Warum Europa zu einer Sozialunion werden muss, in: *Die Welt* (4.6.2016); <http://www.welt.de/wirtschaft/article141919414/Warum-Europa-zu-einer-Sozialunion-werden-muss.html> (called up on 29 June 2016).

Hacker, Björn (2013): On the Way to a Fiscal or a Stability Union? The Plans for a 'Genuine' Economic and Monetary Union. International Policy Analysis. Berlin: Friedrich-Ebert-Stiftung, December 2013.

Juncker, Jean-Claude (2015): Completing Europe's Economic and Monetary Union (22.6.2015); https://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf (called up on 29 June 2016).

Pisani-Ferry, Jean (2006): Only One Bed for Two Dreams: A Critical Retrospective on the Debate over the Economic Governance of the Euro Area, in: *Journal of Common Market Studies*, Vol. 44, no. 4, pp. 823–844.

Sachverständigenrat (2012): Nach dem EU-Gipfel: Zeit für langfristige Lösungen nutzen. Sondergutachten gemäß § 6 Absatz 2 Satz 1 des Gesetzes über die Bildung eines Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung (12 July 2012).

Streeck, Wolfgang (2013): *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus*. Berlin: Suhrkamp Verlag.

Imprint

© 2016

Friedrich-Ebert-Stiftung

Editor: Department for International Dialogue
Hiroshimastraße 28, D-10785 Berlin, Germany
www.fes.de/ipa
Orders/contact: info.ipa@fes.de

The views expressed in this publication do not necessarily reflect the views of the Friedrich-Ebert-Stiftung.

It is not allowed to use media issued by the FES without the written consent of the FES.

ISBN: 978-3-95861-696-7

Titelmotiv: MPD01605, European Central Bank (CC BY-SA 2.0)

Design: www.stetzer.net
Realisation/Typesetting: pertext, Berlin
Print: www.druckerei-brandt.de

December 2016

This is an excerpt from the book:

Schellinger, Alexander and Steinberg, Philipp (2016): Die Zukunft der Eurozone: Wie wir den Euro retten und Europa zusammenhalten. Bielefeld: Transcript Verlag. Ein Studienprojekt des Referats Internationale Politikanalyse der Friedrich-Ebert-Stiftung.

