# Two contrasting faces of Germany are put on display

Even pro Europeans in Germany are now moving towards the view that one day the weaker countries may no longer be part of the euro

by David Marsh

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As the storm clouds deepen over the euro, I have spent some time in Germany in the last few days speaking to German politicians and officials who played a significant role in bringing in the single currency. Two contrasting faces of Germany are put on display: a generous and slightly unrealistic side - and one that is distinctly less forgiving, likely to win the upper hand and will probably lead, sooner or later, to the unravelling of the present euro bloc.

On the one hand sit people such as Hans-Dietrich Genscher, long-time Foreign Minister in the 1970s and 1980s and one of the spiritual fathers of European economic and monetary union (EMU). Genscher got the ball rolling in 1987-88 – around the time when finance ministers started to believe in the virtues of international monetary coordination as a result of the relative successes of the Plaza and Louvre accords to shackle runaway movements of the dollar. Genscher launched a series of speeches and papers that culminated in a memorandum in February 1988 calling for the establishment of a single currency with a European central bank.

In Dresden last week to mark 20 years of German unification, he called for more solidarity from German tax-payers for hard-up members of the euro such as Ireland, Greece and Portugal. Genscher pointed out that German industrialists had profited mightily from the euro by being able to export across the continent without being impeded by currency changes of the sort that bedeviled the forerunner of EMU, the old European exchange rate mechanism. “We must pull together for the good of Europe,” Genscher said. “If we didn’t have the single currency we’d be caught up in conflicts of competitive devaluations throughout Europe.”

Taking a slightly different line is a former senior aide of former Chancellor Helmut Schmidt , for many years an indefatigable supporter of European monetary solidarity, who is now starting to take seriously the talk that something “existential” (as Chancellor Angela Merkel says) is now gnawing away at the innards of the euro.

A more spectacular indicator of how much has changed in Germany is a polemical new book “Save our Currency” launched in Berlin last week by well-known industrialist Hans-Olaf Henkel, a long-time chief executive for IBM in Germany and Europe, who between 1995 and 2000 headed the German Industry Federation (BDI). He calls for the break-up of the euro into two sub-sections, a northern line-up led by Germany and a southern group led by France. And writes that his former support for the euro during his time as BDI chief was “the biggest miscalculation of my career,“ since “something that appeared initially as a blessing for a united Europe has now become a burden which threatens the future not only of the [European] Community but also that of our own country.” This is strong stuff that I predict will further inflame the German debate.

For his part, ex-Chancellor Gerhard Schröder presided over the introduction of the euro in 1999 after he dislodged the previous incumbent Helmut Kohl in autumn 1998. Schröder was responsible for a sharpening of German economic policy in the early 2000s which allowed employers the framework for big advances in productivity and rationalization that has supported the present-day competitiveness of German industry. He also grandiosely ignored the stability and growth pact in 2003-05 and so is blamed by the European Central Bank (somewhat unfairly in my view) for laying the groundwork for out-of-control budgets throughout Europe. Schröder retired in 2005 after losing the parliamentary election to Angela Merkel.

He now says somewhat imperiously: “When the euro was introduced in 1999, this was part of a promise to coordinate fiscal and economic policy throughout Europe. You can’t have a common currency without a coordinated fiscal and economic policy. That is the real reason for the problems. And as long as you don’t have a coordinated policy, these problems will remain.”

Current politicians in Germany are under growing financial and political pressure – and take a correspondingly more down to earth line. Chancellor Merkel and Wolfgang Schäuble, the finance minister, have been in the forefront of moves to tighten up governance of the euro area, including with measures to make private sector creditor bear the costs of any bond defaults and debt rescheduling by heavily-indebted peripheral states.

The Christian Democrat-led government in Berlin headed by Ms Merkel is trailing in the opinion polls behind the Left-wing opposition – despite a spurt in the German economy with an expected growth rate of 3.7% this year that puts most other European countries in the shade. German taxpayers are uneasily aware that they will be asked to bear a large part of the costs of the large-scale financial restructuring that now looks likely across EMU as a result of the catastrophic deterioration of government finances in many member countries.

It was fear of default that drive up government bond yields for the indebted peripheral states on international financial markets last week (ed ended Sat 27 November) . This sets up a self-perpetuating spiral in which the better-off states led by Germany profit from lower borrowing costs as international investors pile into their “safe haven” high-quality bonds. As the investment community shuns their bonds in a “winner takes all” action on the capital markets, the worse-off euro members meanwhile see their financing costs rise to unacceptable levels – bringing the danger of a further worsening of economic prospects. Even highly respected pro Europeans in Germany are now moving towards the view that one day the weaker countries may no longer be part of the euro - a sign of how grim realism is moving to the forefront as the financial and economic mood turns ever uglier across the continent.