German fault lines over euro laid bare

Split between family companies and big business ‘Warfare of limited aims between combatants who are unable to destroy one another’

by David Marsh

Mon 25 Jun 2012

Germany’s battle over the euro used to be a trial of strength and a fight for virtue. Now it’s simply a trial and a fight.

The fault lines have been laid bare by a quarrel, revealed in today’s Handelsblatt newspaper, among the country’s most important industry bodies over the right way to shore up the single currency. Hans-Peter Keitel, president of the Federation of German Industry (BDI), representing the top echelons of big business, has written to leading corporate representatives to warn against speculation of a euro break-up. This counters earlier admonitions from Loetz Goebel, of the Association of Family Entrepreneurs, and Brun-Hagen Hennerkes, of the Family Company Foundation, that euro rescue efforts were exposing Germany to unacceptable financial costs.

The quarrel is an indication of deeper divisions as Germany tries to straddle a middle line between the potentially disastrous financial and political consequences of either saving the euro or seeing it wither and potentially collapse.

Wolfgang Schäuble, the finance minister, told the Sunday paper Bild am Sonntag yesterday that Greece had lost Europe’s confidence. ‘The most important task facing new prime minister [Antonis] Samaras is to enact the programme agreed upon quickly and without further delay instead of asking how much more others can do for Greece.’

In another interview with news magazine Der Spiegel today, Schäuble casts considerable doubt on whether the vaunted plans for a ‘banking union’ across the euro area can come into force any time soon. He backs the idea first aired by Bundesbank president Jens Weidmann for a referendum on changing the German constitution to transfer German powers to Brussels. He indicates that, although the timetable has speeded up, this will require a lengthy period to organise, saying, ‘Neither I nor anyone else knows when we will be in this position.’

Germany’s failure to ratify the European Stability Mechanism (ESM) on time by 1 July, because of legal objections being considered by the Constitutional Court, is hardly a good omen. The wrangling could end up increasing further the expense of bailing out Spanish banks. If Spain receives the €100bn bail-out money in the next two to three weeks, before the ESM has been ratified, then the cash will have to come from the temporary EFSF rescue fund, subscribed by euro members’ guarantees rather than capital injections. This would mean that Germany and the other euro states would have to take over Spain’s guarantees, increasing the bill for the German exchequer by several billion euros.

The danger is that the currency mechanism will limp on in an unresolved limbo of rumbling crisis. At an OMFIF meeting last week in London, Lord (Norman) Lamont, Britain’s chancellor of the exchequer during the 1992 European currency crisis, said, ‘The euro is held together by fear and dogma. It won’t blow up, but the crisis won’t get resolved – it will go on. There will be a move for countries to return to national currencies, but this will be a slow burn on a one-by-one basis.’

Lamont quoted Arthur Miller: ‘An era comes to an end when basic illusions have been exhausted.’ The euro will go on, Lamont said, because the illusions haven’t been exhausted.

Another author to cite might be George Orwell, who wrote in ‘1984’ of Britain in a perpetual state of low-level rumbling war among the superpowers, in vaguely shifting coalitions and alignments sustained by finely-tuned propaganda and mutual hatred. As Orwell wrote, ‘It is a warfare of limited aims between combatants who are unable to destroy one another…..To understand the nature of the present war — for in spite of the regrouping which occurs every few years, it is always the same war — one must realise in the first place that it is impossible for it to be decisive.’

Sounds a lot like the euro.