

Pains of German interdependence

Oswald Spengler's doctrines strike home

by David Marsh

Mon 7 Mar 2016

'Germany is not an island. No country is in the same degree woven actively or passively into the world's destiny. Germany's geographical position, its lack of natural borders, condemn it to this role. In the 18th and 19th centuries it was "Mitteleuropa", in the 20th it is once again a buffer against "Asia". The Germans, more than anyone, must think politically and economically well beyond their borders. Everything that happens afar sweeps through to the heart of Germany.'

So wrote Oswald Spengler, a German writer-philosopher of the Weimar republic and the early Nazi period, whose gloomy 1920s and 1930s prognostications made him a symbol of that age of dislocation. I first became aware of Spengler's writings in the build-up to German unification. A mass exodus from East Germany into the Federal Republic from autumn 1989 onwards, a product of relaxation of Soviet control over eastern Europe and the realisation that Marxism-Leninism was bust, brought 300,000 people into the western part of the country. Reunification followed in October 1990.

During 1989, the population rose by 800,000 as a result of immigration from the eastern part of the country and the developing world. Germany was again at the epicentre of far-reaching geopolitical and migration upheavals.

The position is not so different today. Germany took more than 1m immigrants last year, with more on the way. Soviet uncertainties have been replaced by Russian ones. The European Union will either be dismantled or head for more centralisation. Soul-searching under Chancellor Angela Merkel has reached Spenglerian proportions. Here are four examples of how Spengler's painful tales of wrenching global interdependence are striking home.

- Real-life events have eclipsed Germany's vision of leading the EU into liberal democracy, efficient markets and economic prosperity. The euro has sown European division. Populist anti-European parties are on the march. If Britain leaves the EU – the vote in June is still astonishingly wide open – then no nation will be more negatively affected than Germany.
- Assembling enormous annual current account surpluses – a product of an undervalued currency and concentrating German resources on exports and savings – will not safeguard Germany's future. The country has built up unrepayable claims on foreign countries that will have to be written off.
- Germany's need for European solidarity over the migration crisis – which Merkel has made worse by overdoing the welcome – has exposed it to blackmail. Turkey, shifting daily to more authoritarianism, is asking for ever more money to keep refugees on Turkish soil. Greece, facing thousands hemmed in between the haemorrhaging south and an increasingly sealed-off north, is suffering a national emergency. So no one can press Athens into completing IMF-ordained reforms.
- To revive euro area inflation, the European Central Bank will almost certainly cut negative interest rates further on 10 March. The Bundesbank will bow its head and acquiesce. This will have counterproductive consequences. The euro will be weak, exacerbating the German current account surplus; and European banks' profitability (especially in peripheral countries) will come under fresh pressure, delaying recovery.

One small piece of good news. Because of refugee attrition and the world slowdown, Germany will not achieve its goal of a balanced budget this year. Indeed, the extra spending generated by the migrant flow could be compared with a mini-Keynesian stimulus. This could help Europe's growth. But Germany will get no great thanks for the change in stance. In best Spengler tradition, Berlin will say this is an unfortunate product of uncontrollable international events, sweeping through to the heart of Germany.

David Marsh is Managing Director at OMFIF.