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# To lead or not to lead? The politics of Germany's response to the Euro-Crisis

New Stage, Old Roles? Long-term patterns in German, Czech and Polish national roles and the implications for their respective European policies

Public roundtable, Monday 19th November 2012, 16.00 – 18.00  
Institute of International Relations, Prague

# Outline

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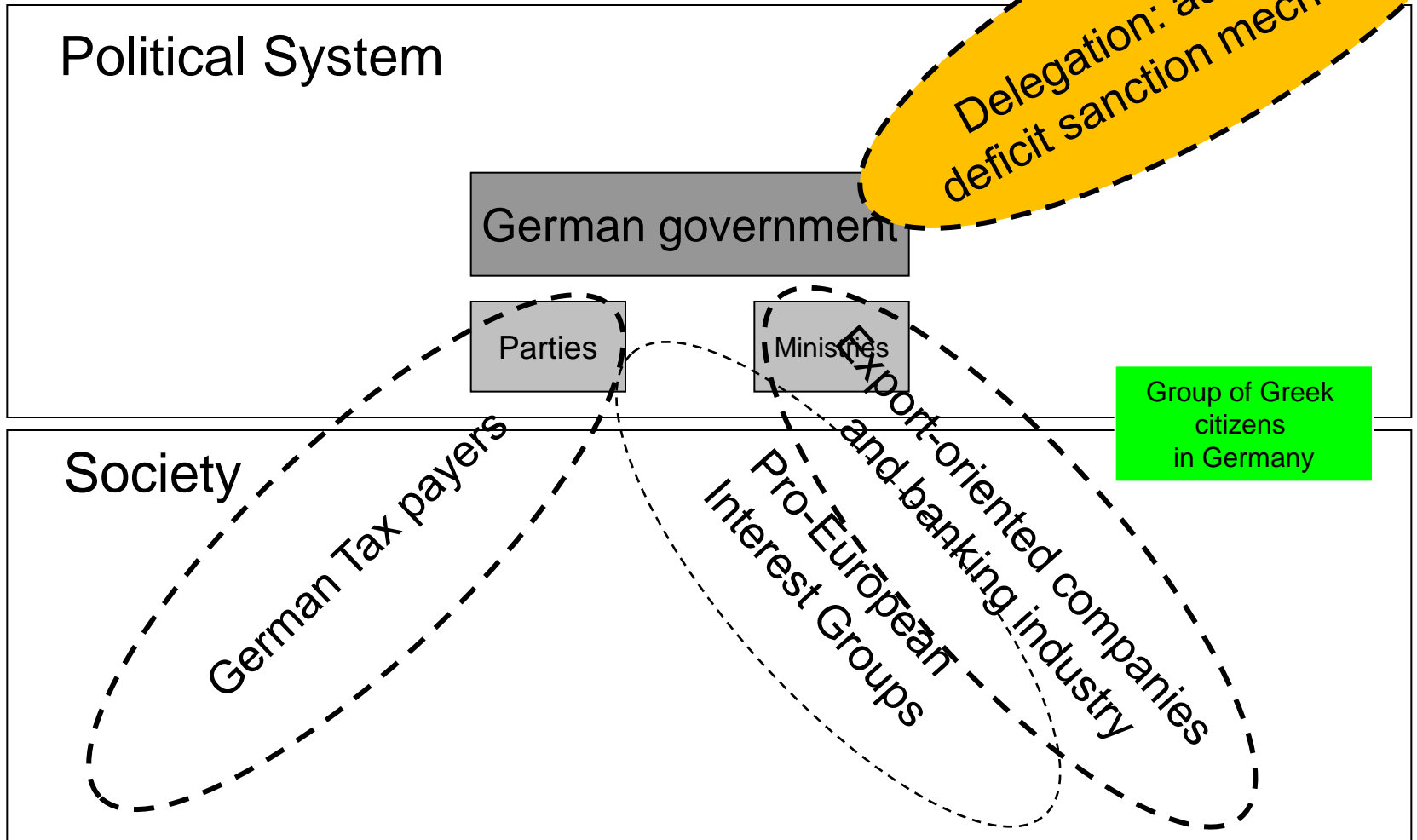
1. The argument
2. Germany's competitive edge and the €-Crisis
3. The Euro-Zone's and Germany's policy response
  1. Policy trajectory
  2. Public opinion
  3. German bank's exposure in the Euro area
  4. The Federal Constitutional Court Sept. 7, 2011 decision
4. Conclusion and outlook

# The argument

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1. Germany's hesitant leadership policy during the €-crisis is driven by domestic concerns (mercantilistic competitiveness) and the fear of hazardous commitments for (irresponsible) lender governments/banking sector in Southern periphery.
2. An explanation which focuses on the interests of the (exposed) German banks, public opinion and the rulings of the Federal Constitutional Court explains Germany's crisis policy trajectory best.
3. Interpretations which hold that Germany seeks a (benign) hegemony are misleading:
  - 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 Euro-Zone Crisis: a Two Level Game

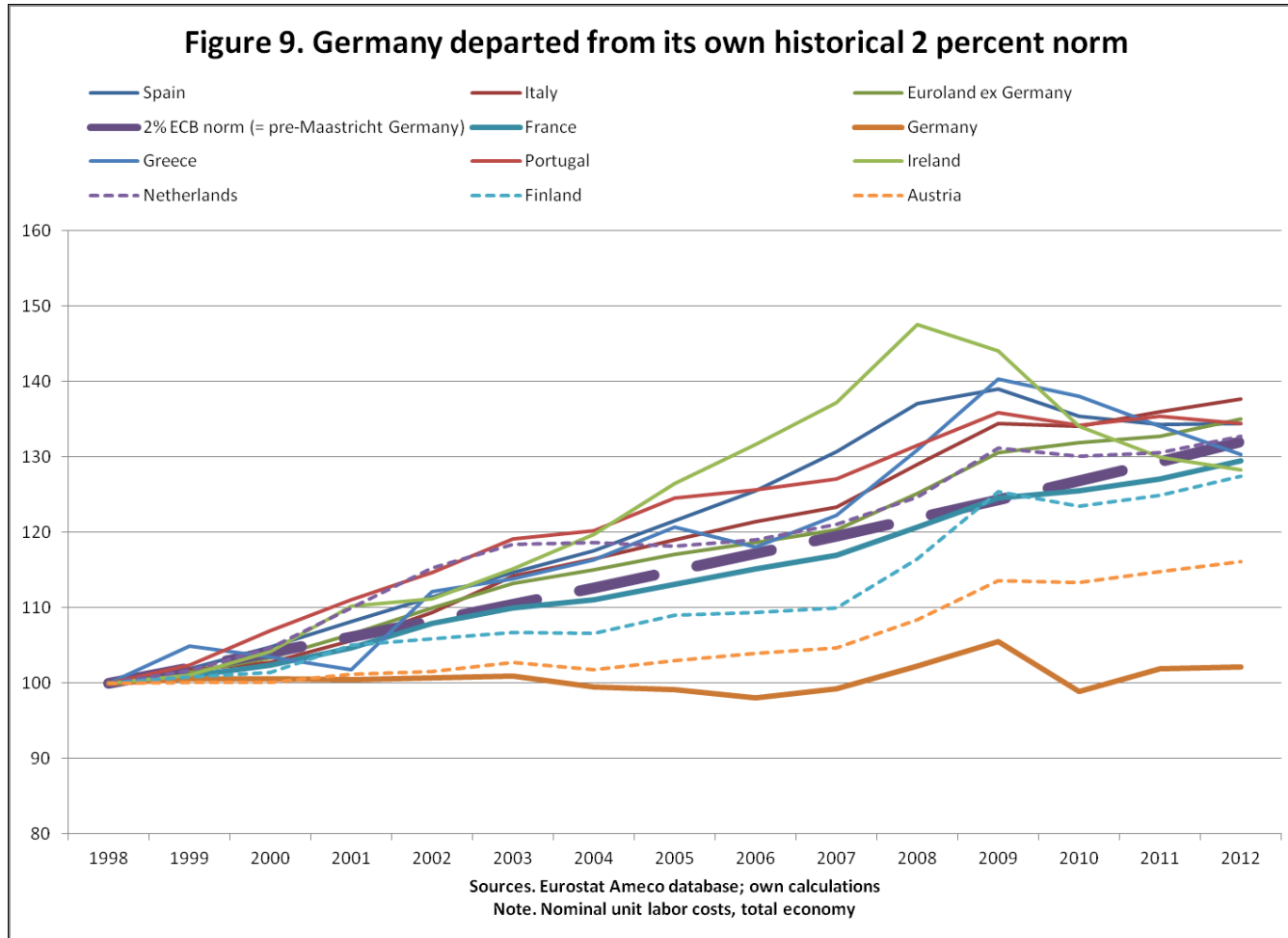


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# Germany's competitive edge and the €-Crisis

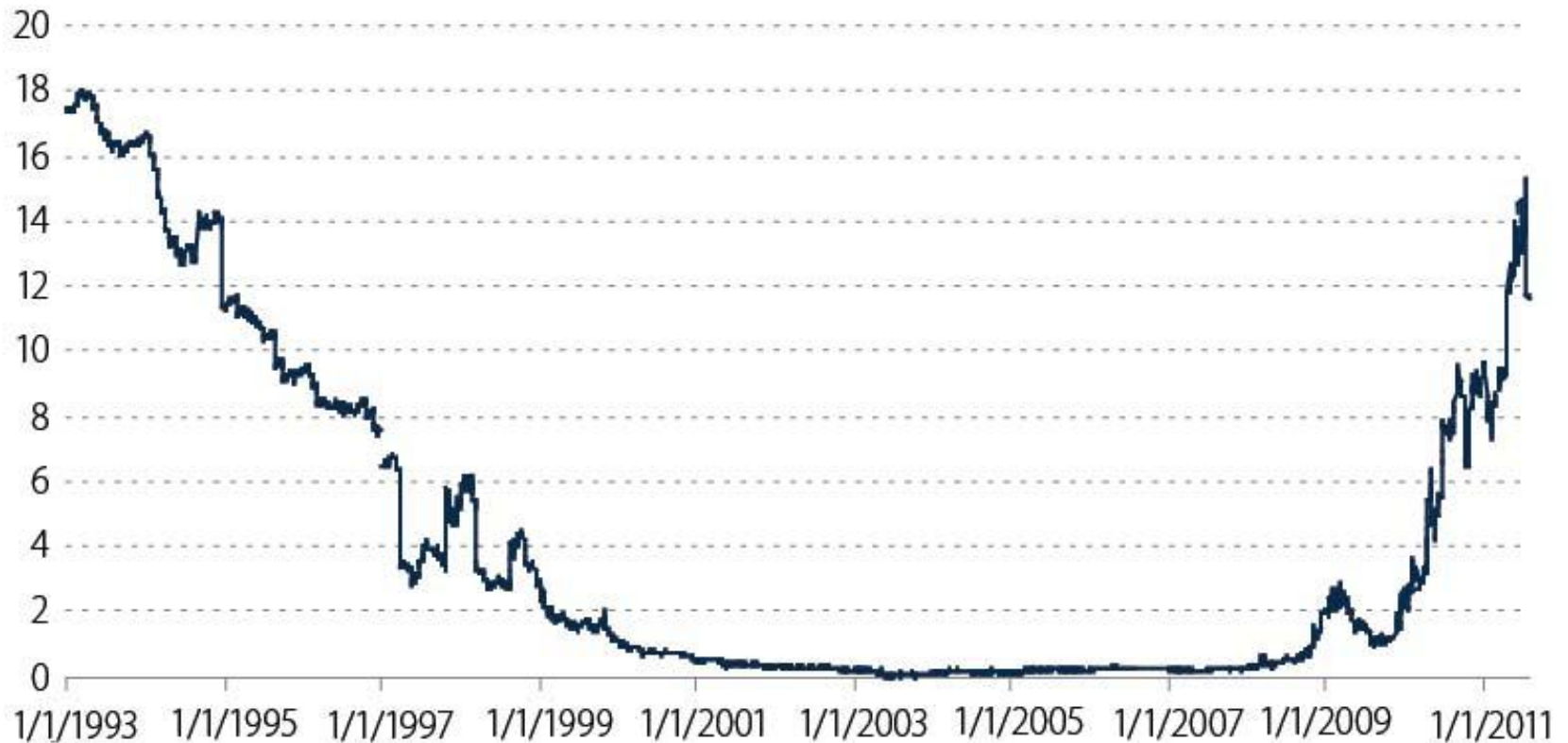
A short history of the political economics of the €-crisis

# Germany's competitive edge: nominal labor cost decline



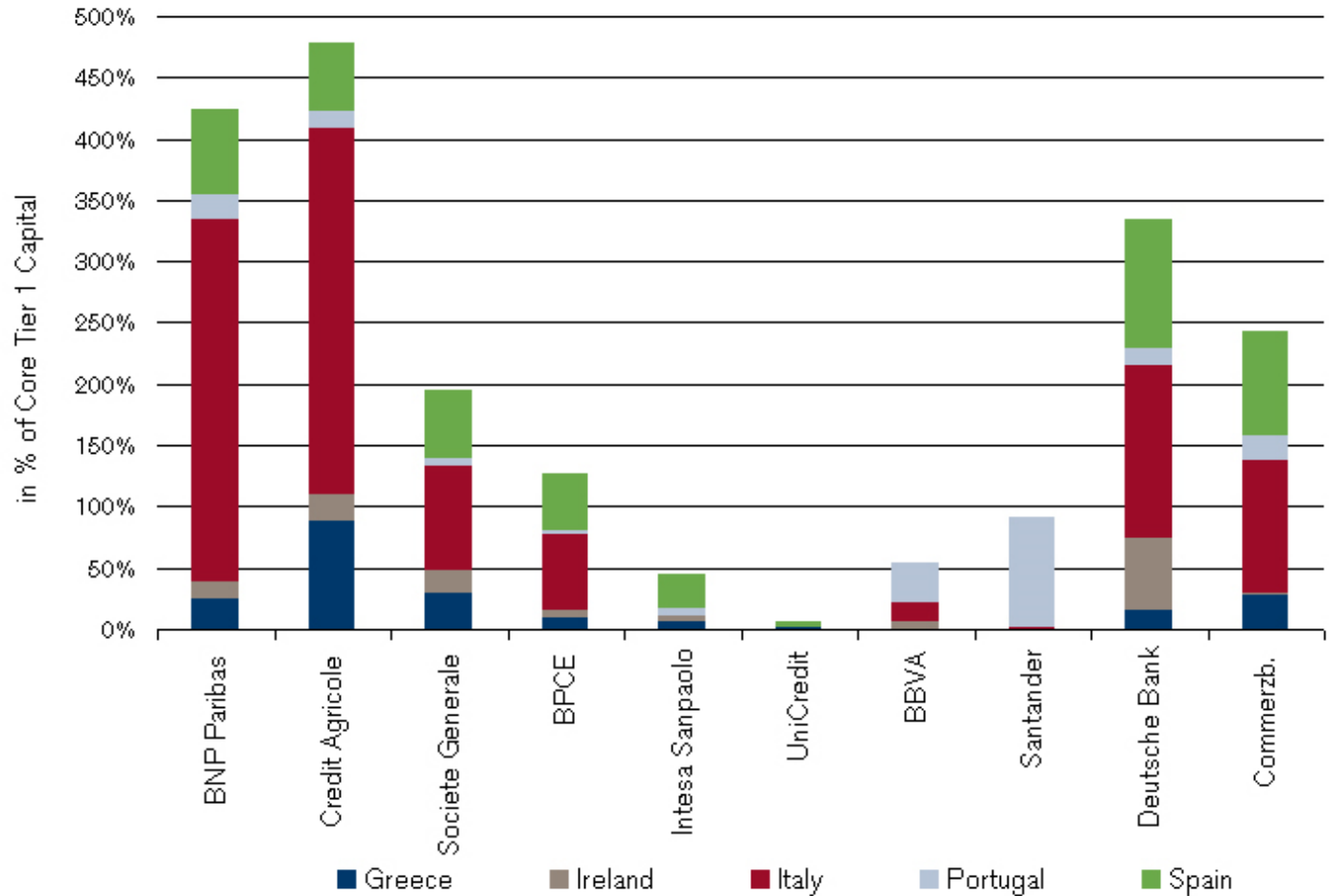
# Greek Bond Spreads, 1993-2011

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



Source: Nelson/Belkin 2011: 5

# 55% of the public debt titles in PIIGS-states is held by German and French banks



Quelle: <https://infocus.credit-suisse.com/app/article/index3.cfm?fuseaction=ShowImageDetail&cimgid=321387&pimgid=321386>



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# The Euro-Zone's and Germany's policy response

# German policy response: Phase 1 (May 2010)

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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.

# German Public Opinion on €-bailout: sceptical

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- 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](http://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

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„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).

# Maastricht-Ruling 89, 155 Rn. 146-148

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146: The economic policies of the Member States are declared to be a matter of common concern, and their broad guidelines are to be co-ordinated and regulated by means of a recommendation from the Council (Art. 103 of the EC Treaty). Art 104 of the EC Treaty prohibits national central banks from granting overdraft facilities or any other type of credit facility to bodies governed by public law or public undertakings of Member States, and from purchasing debt instruments directly from them. Except where prudential considerations are concerned, bodies governed by public law or public undertakings of Member States shall not be entitled to privileged access to financial institutions (Art. 104 a of the EC Treaty). **Art. 104 b of the EC Treaty excludes the Community and any Member State from liability for and from assumption of the commitments of bodies governed by public law or of public undertakings of another Member State, which means that it is not possible for a Member State to evade the consequences of questionable financial policy.** Art. 104 c of the EC Treaty, together with the Protocol on the Excessive Deficit Procedure, obliges the Member States to avoid excessive governmental deficits and subjects government debt to monitoring by the Commission. The Council may, acting on a recommendation from the Commission, decide that an excessive deficit exists in a Member State, and may take measures necessary to remedy that situation.

147: This concept of the monetary union as a community of stability is the basis and object of the German Act of Consent. If the monetary union were not able to continually develop that stability existing upon transition to the third stage as provided by the mandate of stability which has been agreed upon, it would move away from the concept upon which the Maastricht Treaty is based.

# Headnotes of the Judgment of 7 September 2011

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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.

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# Conclusion

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1. A liberal explanation musters far more explanatory power than a realist one when considering the characteristics of Germany's crisis management policy.
2. Given the intense cross-cutting domestic and international expectations, Chancellor Merkel's crisis management has been prudent, successful but also self-serving thus far.
3. A mid-term resolution of the crisis requires German self-restraint in its „mercantile competitiveness cum reckless lending practices“ and:
  1. a common and ratified European Debt relief plan
  2. stable national governments
  3. Prudent (or tamed) international market forces.
4. The advantages that Germany can draw from its "safe haven" status are offset by the risks associated with its loans and credit guarantees under the rescue funds, the government bonds purchased by the ECB and the Target 2 receivables.
5. The €-crisis has made the German economy more dependable on non-€-area demand growth, particularly in Northeast Asia, adding volatility to its export outlook during the double transition period in the PRC and the US.





# Summary of FCC Rulings on EC/EU

	<b>Solange I</b>	<b>Solange II</b>	<b>Maastricht</b>	<b>Lisbon</b>
<b>Concept of Democracy</b>	Open (individualistic)	Open (Individualistic)	Closed (Statist)	Mixed (Individualistic/ Statist)
<b>Core Elements</b>	Fundamental Rights / Democratic process	Fundamental Rights / Democratic process	Fundamental rights / Art. 79, 3	Fundamental rights / Art. 79, 3: right to vote, sovereign statehood, constitutional identity + 5 policy fields
<b>Cooperation with ECJ</b>	Division of labor (active)	Division of labor (passive)	Declared Cooperation	No reference to Judicial cooperation
<b>Coalition of Nat. Constit. Courts</b>	No clear reference	No clear reference	No clear reference	Reference to Czech Const. Court

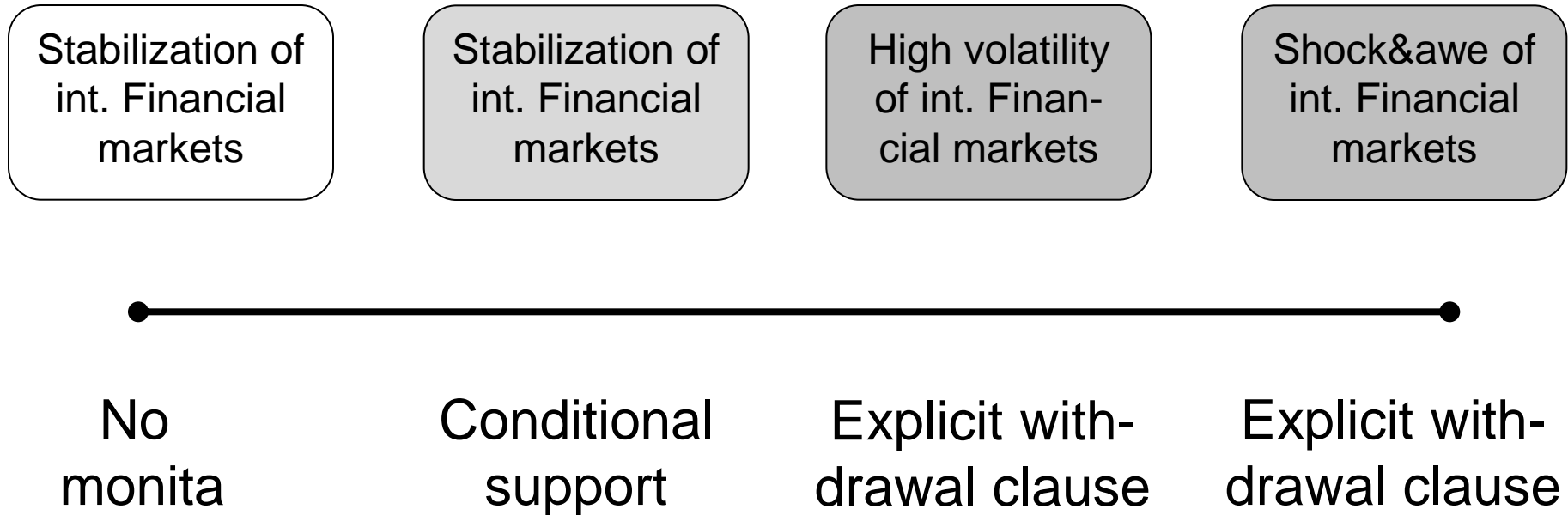
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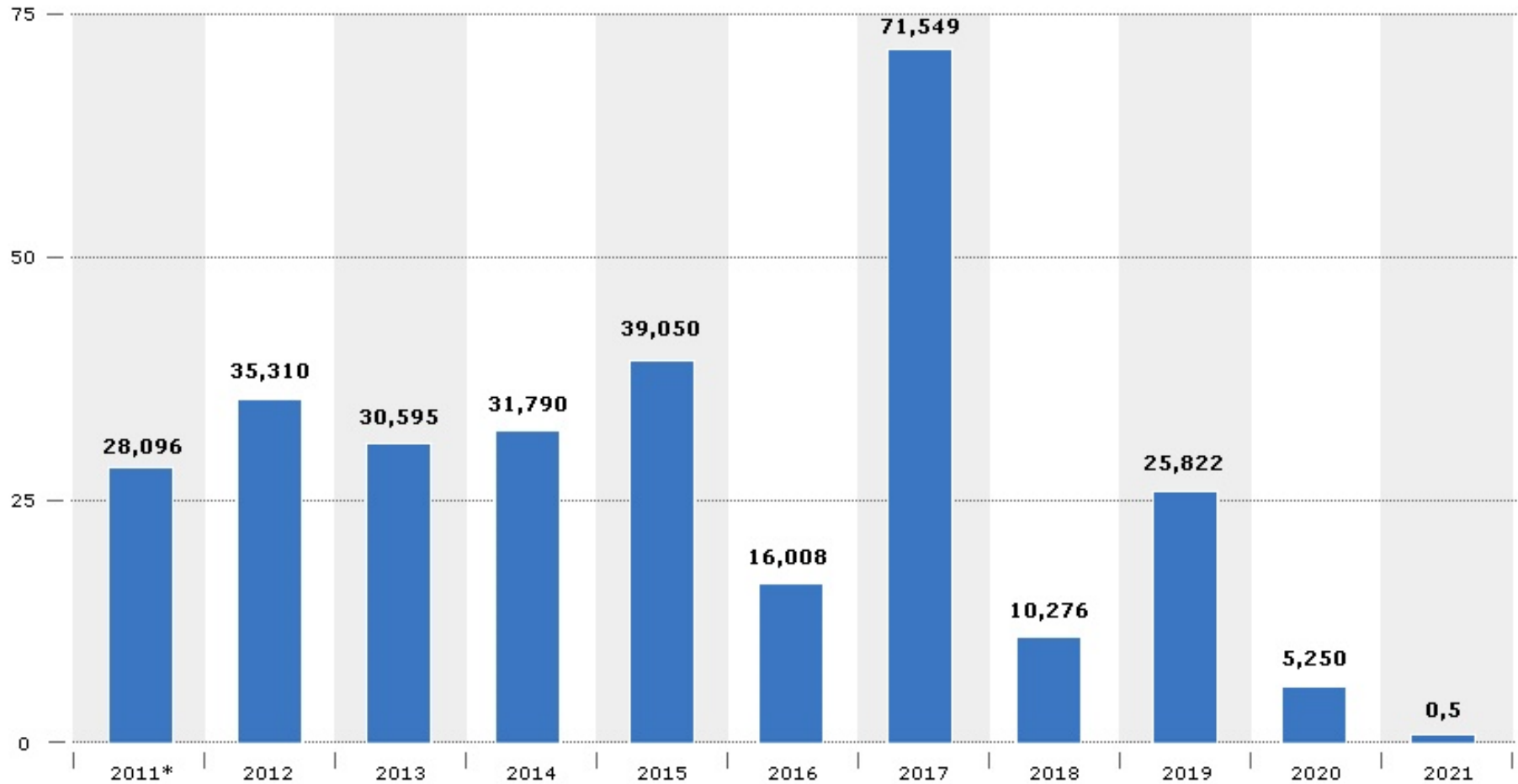
# FCC ruling on ESM: Spectrum of choices

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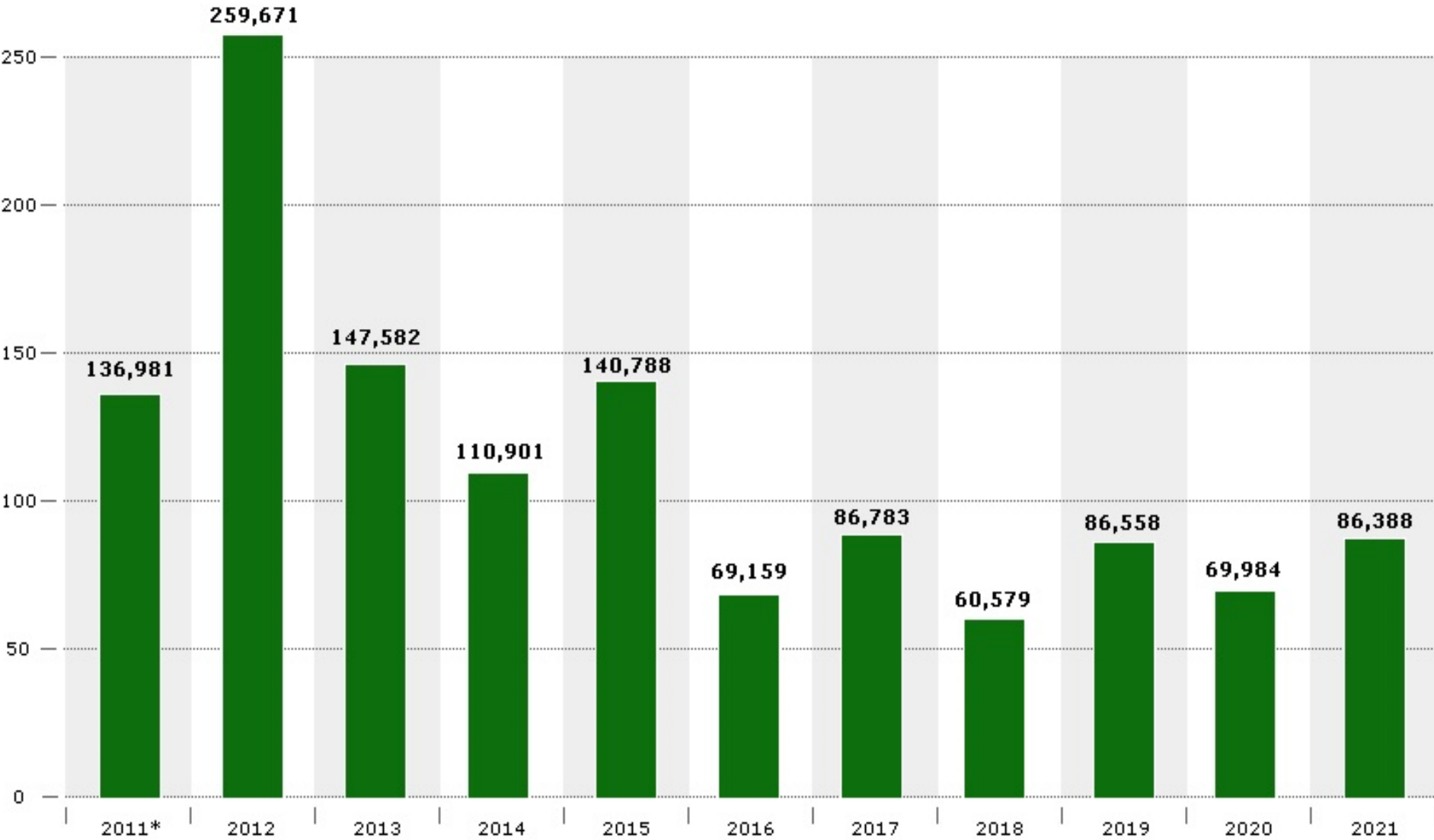
# Wann die griechischen Staatsanleihen fällig werden

Angaben in Milliarden Euro

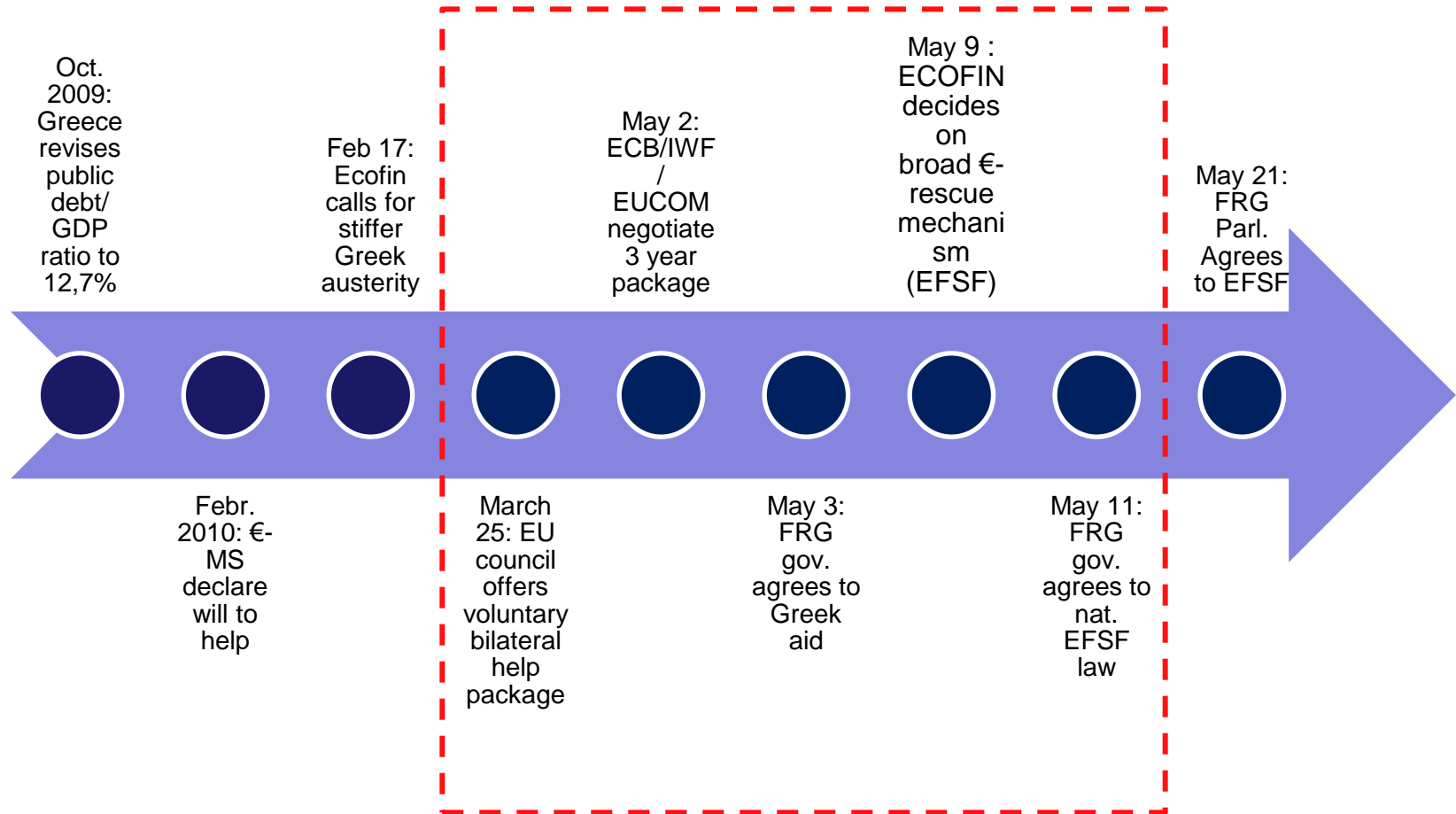


# Wann die italienischen Staatsanleihen fällig werden

Angaben in Milliarden Euro

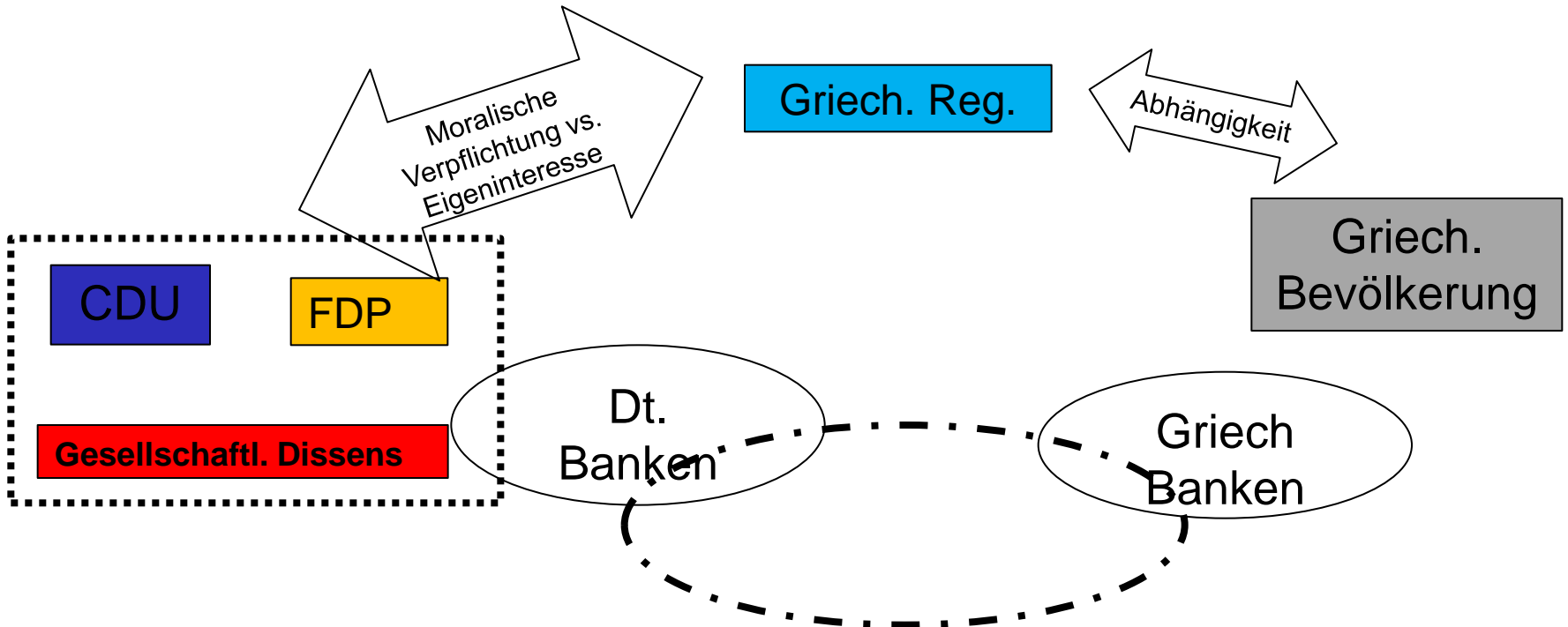


# Deutsche/Eurogruppen-Entscheidungen in der griechischen Verschuldungskrise, Phase I: 2009-2010



# Moral Hazard-Problem (Versicherungseffekte)

Moral hazard refers to the tendency for insurance against loss to reduce incentives to prevent or minimize the cost of loss (*Baker 1996: 239*).





# Überblick: €-MS Stabilisierungsmechanismen

## 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.**

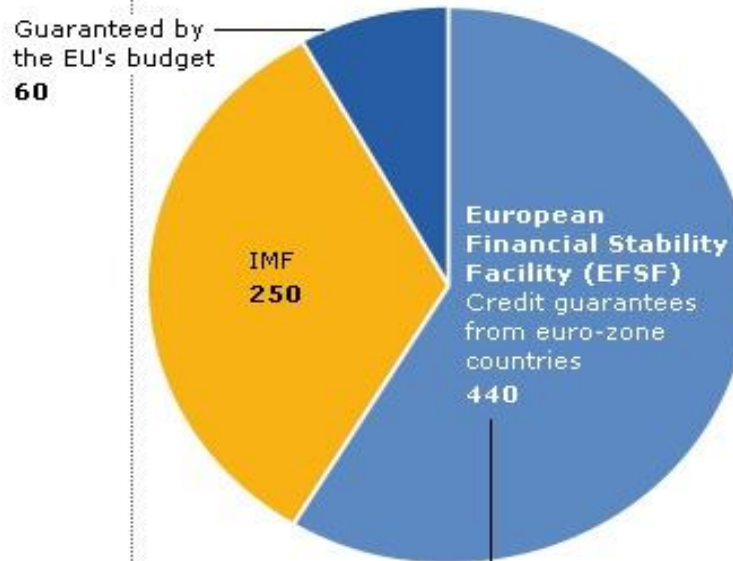


**May 2010**

### 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.

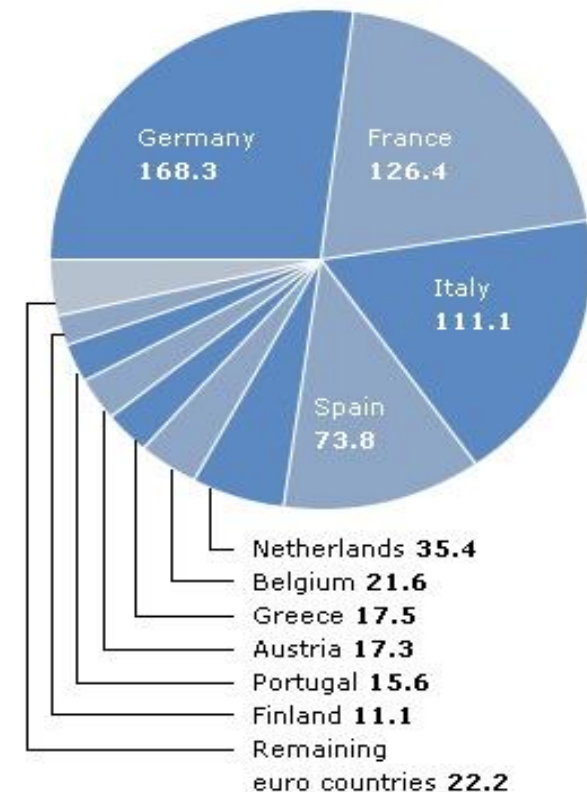
**From 2013 onwards**

### European Stability Mechanism (ESM)

Available Capital / Guarantees

**Approximately €620 bil.\***

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



# Deutsche/Eurogruppen-Entscheidungen in der griechischen Verschuldungskrise, Phase II: 2010-2011

