Frontier
Vol. 43, No. 30, February 6-12, 2011

EURO CRISIS

The German Economic Model

Peter Custers

The recent months have seen an intensification of the crisis in the Euro-zone, the region of Europe where the Euro is the reigning currency. At the end of November'10 Finance Ministers of the 16 countries which have the Euro as common currency, got together to discuss a rescue package for Ireland. Like Greece, which was threatened with default half a year ago, Ireland faced a double financial crisis. The state threatened to default on foreign loans, and at the same time had to cope with deep troubles in its domestic banking sector. The rescue package proposed to save Ireland from bankruptcy was quite unprecedented, certainly in its sheer size. It involved the rosy amount of 85 Billion Euro. Roughly half of this, i.e. 45 Billion Euro, are to be furnished from the European Union's Emergency Fund established half a year ago, i.e. in the wake of Greece's default crisis. Another quarter, i.e. some 22.5 Billion Euros, will be supplied by the International Monetary Fund (IMF), the world institution which has previously subjected many Southern states to austerity regimes. While to outsiders the November agreement of Europe's Finance Ministers would seem to express healthy solidarity in the Euro-zone, the Irish government itself initially resisted the EU and the IMF's attempts at saving her. It feared for further loss of economic sovereignty at the expense of its own working people.

Throughout the major part of 2010, the European Union's Euro-zone has been beset by a renewed financial crisis which the EU's most powerful states–foremost Germany–have primarily blamed on the failure of the weakest Euro-zone members to maintain balanced budgets and preserve overall solvency. Thus, when Greece threatened to default on its foreign financial obligations in April last, it was severely chastised by the Euro-zone's powerful states. Yet the injustices underlying the recipe used to solve Greece's problems were readily apparent. Greece at the time was allowed to re-schedule its external debt. But the interest rates that needed to be paid to re-assure Greece's external creditors were exorbitant. At one point, interest rates on Greek bonds rose to over 10%–a figure about five times the then rate on German state bonds which were merely 2%. In the case of Ireland, which country was subjected to surgery more recently, the interest rates charged on loans from Europe's Emergency Fund are excessively high as well. They reportedly are even higher than interest rates on regular IMF-loans. Meanwhile, stringent austerity measures have been imposed on the Greek and Irish populations. In the case of Greece these comprise for instance: an increase in the level of the value added tax (the main tax on consumable items), and a dramatic increase in the retirement age (from 53 years to 67 years).

Yet are the arguments put forward to justify these draconian measures valid? Critical economists have questioned from the start of the Euro-zone crisis whether the analysis put forward by Germany's Chancellor Angela Merckel and by other Northern European politicians really holds. Thus, leading German economist Till van Treeck argues that the main source of Europe's troubles lies not in unbalanced budgets of the weak, but in Germany's own economic strategy, which he identifies as mercantilism. According to this 16th century! economic theory, growth of any capitalist economy is best assured by stimulating exports of commodities. Both Germany's previous Chancellor Gerhard Schroeder (Social Democratic Party, SPD) and its present Chancellor Angela Merckel (Christian Democrats, CDU) pride themselves on having ensured Germany's economic growth via the given mercantilist strategy. And indeed, Germany's dependence on export growth is as striking as is China's. Thus, according to Till van Treeck's research data, Germany is the only country in the Euro-zone where exports have contributed more to growth in the Gross Domestic Product (GDP) over the period 1999-2007 than has domestic economic activity. This last decade, Germany has faced a weakening of internal demand, while the country has simultaneously promoted its commodity exports at the expense of exports by other members of the Euro zone.

Again, it would be shortsighted to overlook the social consequences of the economic strategy which German's rulers have pursued during the first decade of the new millennium. For the mercantilist policies implemented by Schroeder and Merckel have been accompanied by policies contrary to the interests of Germany's own working class. Speaking in comparative terms: the German unit cost for labor reportedly increased less than 2% between 1999 and 2007, whereas the unit cost increased from 28% to 31% for the countries belonging to Europe's 'weak' belt (Greece, Ireland, Portugal, Spain), i.e. for countries that are all at risk of an external default. And while Germany's average labor costs hardly rose, these increased by 17% in France, Germany's main competitor for European leadership. Hence, Germany's strategy has been overwhelmingly dependent on a reduction of labor costs, and on the restructuring of the country's domestic labor market. During the last decade, Germany has drastically deregulated the country's labor relations. Even according to figures of the OECD, the international institution registering evolutions in old industrialized economies, - inequalities in wages and poverty between 2000 and 2005 increased faster in Germany than they did in any other OECD country.

The European Union at the end of 2010 is clearly being threatened with internal disintegration. But the question is: who is to be blamed? Is it recklessness by the Euro-zone's weak states, such as Greece and Ireland, - or rather the mercantilist policies that have been pursued by Germany, the Netherlands and other powerful Euro-zone players? Germany's Chancellor Angela Merckel in any case has come full round. Whereas initially, in April last, she was unwilling to move, pleading resistance by her voters, i.e. defending German tax payers' interests,–she now is fully ready to bypass democratic procedures in order to protect the investments of German banks and other financial institutions in countries of Europe's 'Southern' belt. While the Constitutional Court in the city of Karlsruhe in 2009 has instructed the German government it should subject the Lisbon Treaty for neoliberal integration to a vote by Germany's parliamentary institutions, –Merckel is moving forward, undisturbed by legal constraints. In November she has forced Europe's Finance Ministers to agree to revision of the Lisbon treaty, so as to make sure the Emergency Fund established after the crisis over Greece's finances become permanent. For Europe's powerful states there is no way back. Their interests continue to lie in continuation of the export-oriented strategy they have been pursuing, and in survival of the Euro as common currency. □□□