GERMANY AND THE EUROCRISIS: THE TIMING OF POLITICS AND THE POLITICS OF TIMING

by

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"It's humiliating that, for the last four years, it has seemed somehow unclear whether the German government's stance on Greece differs significantly from the slogans printed in the tabloid newspaper *Bild*."

-- Ullrich Fichtner

Introduction

This paper speculates on the future of the euro. It uses Germany as a prism for the discussion about what might be done next to bolster the Euro. Researching the future—always a challenging task—is made harder when multiple state actors contend for prominence on the basis of shifting coalitions at home, all while interacting at an international level. That said, almost everyone accepts that German choices will play the central role in the path ultimately chosen. This paper thus foregrounds Germany's role in shaping the way ahead, and it does so through an explicitly political framework focused primarily on the electoral implausibility of an alternative German policy course.

Any discussion about that way ahead presumes some effort to understand how we got where we are. Much analysis of Germany's behavior during the slow motion unraveling and very partial repair of the Eurozone has dwelled on the perplexities of Germany's modest response to a crisis of frightening proportions. Why has the biggest state so often had the smallest imagination? When not being charged with economic illiteracy[2] or a sadistic streak,[3] the general explanation for Germany's conservative, cautious, and incrementalist policies generally have been either ideological—with a heavy emphasis on the importance of ordo-liberal thought[4] – or institutional – with the emphasis on ministerial prerogatives, federalist veto points, or active checks from the Constitutional Court.[5]

This paper adds an electoral dimension to Germany's policy responses. Indeed, while almost nobody abroad is happy with German policy, almost nobody at home has been upset with it. Angela Merkel easily won her 2013 re-election bid over an opponent who offered little substantive alternative when it came to policy towards Europe and who is, in any event, now her coalition partner with an agreement that explicitly rules out debt mutualization. But the paper goes beyond considering merely 'what voters want,' for here, as so often, they want many things all at once. German voters overwhelmingly wish to stick with the euro (about 2:1 in summer 2013), but they also support other policies—particularly austerity—that leave the euro highly vulnerable. Rather than merely stressing the obvious point that German voters are conflicted and confused, this paper injects an element of 'time' into what are too often otherwise static considerations of German policy. A focus on time and timing builds on a robust research agenda but one that has tended to emphasize day-to-day policymaking—especially at the EU level—rather than the exceptional and even crisis-driven considerations affected by timing.[6]

Yet timing has mattered greatly in these exceptional circumstances brought on by the Eurocrisis. Accordingly, this paper considers both the 'timing of politics' and the 'politics of timing' under extraordinary decision-making pressure. In the former consideration, while German policymakers accept the need for a massive intervention in sovereign bond markets of other Eurozone members, they want to pick the optimal time of intervention to maximize the efforts of private actors and deter public and private behavior that might require more bailouts in the future. Their central focus is on moral hazard[7], and their aim

is that their political priority—to save the euro—come at the 'right' time and not so early that policy mistakes remain uncorrected. In the latter consideration, a concern about the 'politics of timing' means that German elites also feel they cannot intervene until they have properly prepared their voters. However, by the time elites have sold to voters a bailout of a certain envisioned size, the problem has grown larger such that the envisioned remedy is no longer adequate to the job. Here, the elite focus is centrally on the legitimacy of their policy choices.

Adding to the difficulty, if one focuses primarily on the timing of politics, then patience is a virtue, and elites should wait and minimize future moral hazard concerns. If one focuses primarily on the politics of timing, however, then patience is a vice, as windows of opportunity for stemming the crisis slam shut, one after another. The broad point of the paper is that the first concern—to avoid cementing an unwise policy status quo in troubled Eurozone states—has consistently won out over the second—actually stemming the crisis of confidence in the Euro.[8]

The argument proceeds in three interrelated steps. First, a fundamental and still very much unsolved problem in the European economy consists of imbalances in both trade flows[9] and financial markets.[10] Second, while these imbalances contributed to the crisis in the Eurozone, their resolution—such as it is—has depended primarily on adjustment in the peripheral countries. Meanwhile, Germany, having benefited once as the imbalances accumulated, has benefited again from their subsequent consequences, including the 'flight to safety.' I call this 'Germany's exorbitant privilege.'[11] Together, these benefits create

conflicting pressures. On the one hand, there is a strong bias toward the status quo that has benefitted Germany so handsomely. On the other hand, there is a clear recognition that others in Europe are struggling and the euro, and its benefits to Germany, is in danger. Germany resolves this dilemma by innovation on the institutions of euro-area governance flanked with a ferocious defense of fiscal austerity and structural reforms. One implication is that Germany's exorbitant privilege has helped prevent the rise of an alternative discourse and justified policies that suppress growth in other states. Third, with the taming of the German boom and a 2013 election that strengthened the status quo on Germany's European policy, we have reached an impasse.[12] Yet this impasse cannot be stable: Germany cannot run a persistent trade surplus, avoid meaningful fiscal transfers, and still have a monetary policy with an independent central bank and a no bailout-policy.[13]

Do Something!

Germany is beset on all sides by those who would have it 'do something!' The exhortations began with heads of government in Europe's Mediterranean periphery, and extended to Hungary's socialist prime minister in 2009,[14] Poland's liberal foreign minister in 2011,[15] the U.S. president,[16] the Italian prime minister and ECB President in 2012,[17] and the European Commissioner for financial matters in 2013,[18] and the US Treasury and European Commission (again) in 2014.[19] Some of this criticism is also present in the domestic debate. For example, in April 2010, Joschka Fischer's Dusseldorf speech lamented Germany's waiting on IMF approval before assisting Greece. Fischer paraphrased Heine: '*Denk ich an [Europa] in der Nacht, bin ich um den Schlaf gebracht*.'[20] Vaclav Klaus, a very different

politician, expressed in Berlin the next day a similar concern about German dithering. Helmut Schmidt's 2012 *Parteitag* speech blasted the German government for not noticing or not caring that its policies were tearing Europe apart.[21] Thus, there has been concern across the political spectrum, the European continent, and even the Atlantic.

In the crosshairs of these complaints, one can forgive the Germans for feeling wounded and defensive.[22] Most obviously, Germany *has* done 'some things.' Many scholars show Germany has done at least an average amount on the fiscal side compared to the rest of the OECD,[23] especially when compared to the rhetorically activist but fiscally constrained France.[24] Moreover, essentially non-stop summitry between spring 2010 and summer 2012 left an impression in the minds of many German voters of well-nigh frenetic German activity.

It is, however, hard to say *exactly* what Germany has done. Partly, this is down to the proclivity for European leaders to 'repackage' what they had already pledged in prior discussions. This criticism can certainly be leveled at the lengthy search for a new set of fiscal rules for the Eurozone states, but it also applies to the emergency bailout packages negotiated to date. For months on end, each summit ground out new pledges that, upon closer inspection, were composed substantially of old pledges.[25]

Voters are confused. Estimates of the size of German commitments vary wildly. As an intermediate starting point, one could look at the €190 billion figure cited by the German Constitutional Court in its decision to allow the European Stability Mechanism.[26] On the

other hand, by stressing Germany's TARGET2 liabilities of around €600 billion, Hans-Werner Sinn once claimed German exposure amounted to $1.3 trillion.[27] Subsequent and regular revisions resulted in a general lowering of these estimates by his institute, such that they were pegged at €541 billion in June 2014.[28] Yet since Germany's primary tool has been loans rather than grants and since the loans—apart from bilateral loans to Greece of €53 billion in 2010—have all been raised on the markets, it is hard to know what Germany's true exposure has been. In mid-2012, *Business Week* reported that only about €15 billion out of Greece's €340 billion in loans came from Germany, though other sums did come from international organizations that Germany is party to, including the EU and the IMF.[29] At the extreme, some have argued that none of the 'northern' European states have paid a single euro in aid through 2013.[30]

With voters understandably anxious and confused, German policy elites confront European economic problems with several broad and generally reasonable (though not always explicit) assumptions in place: 1) Germany must help because it is the indispensable nation in addressing Europe's economic woes; 2) Germany's own economic and leadership capacities are finite; 3) Germany itself could be damaged by ill-designed rescue efforts; 4) German voters can be made to understand the first point—Germany is indispensable for crisis resolution—only if it is reassured the government understands the second and third points. In simple terms, the logic – shared across wide swaths of the German elite – can be encapsulated in these four ideas: Germany can do some important things. It cannot do everything. The rescue cannot be allowed to mortally damage the rescuer. Whatever

Germany does must bear public scrutiny. The next section shows how these apparently sensible parameters have buttressed a reform argument that cannot work.

The Imbalances Problem

Mark Blyth has shown that in both the United States and Europe, a quintessentially private banking crisis has been rhetorically transformed into a crisis of 'public' debt.[31] In an analogous but also complementary fashion, Europe has seen its substantial current account imbalances—again, phenomena that have their primary roots in private consumption and savings choices—recast as crises brought about almost exclusively by faulty political choices, whether of levels of government consumption or improper regulatory coddling of inefficient private producers. No country has done more than Germany to promulgate this understanding of the enduring economic misery in Europe. Debate in the German Bundestag continually invokes the Greek case as exemplary of all the troubled Eurozone states (see below). This understanding justifies a view that German *advice* must be followed before German *money* can do any good. At the same time, German officials have been keen to downplay new and more sober limits on financing current account imbalances as an independent source of stagnation.[32] This section explores the implications of Germany's strong and sustained trade surpluses for the politics of crisis resolution—implications that are likely to persist in some fashion going forward. On the 'strong and sustained' claim there can be little doubt. By 'sustained', I mean primarily that Germany has run a goods surplus *every single year* since 1951; by 'strong', I mean that this surplus was below 2% of GDP in only five years since 1950 and has been as high as 8%.[33]

The basic idea behind this 'imbalances problem' is relatively straightforward and, by now, well understood: as global liquidity increased in the early and mid-2000s, a significant amount flowed to Spain, Ireland, Greece, Portugal and other states where, despite rapid convergence in interest rates with Germany and others, somewhat higher yields were available.[34] These capital inflows contributed to strong asset bubbles (Spain, Ireland), surging demand (Italy, Greece, Bulgaria), or both (Estonia, Latvia, Portugal).[35] They also created permissive space for steady rises in unit labor costs, even as Germany's stayed flat.[36] As competitiveness eroded in these states, current accounts went heavily into deficit, which required additional capital inflow.[37] Meanwhile, Germany's deep strength in high quality manufacturing goods whose purchase was enabled by such liquidity provision led to sustained export booms in several manufacturing sectors.[38] As loose monetary policy in the US and Europe boosted liquidity, initial German advantages in intra-European competitiveness were magnified, while the fruits of that competitiveness were recycled back into those countries requiring higher financing to sustain growing levels of consumption.[39]

As noted, German officials resolutely deny that the surpluses of German manufacturing are a cause of the build up of debt in the European economies.[40] There are two important consequences of the German denial that its permanent surpluses are a problem. The first is that it tends to lead German officials to overestimate the potential of their alternative solutions in *substantive* terms. The second is that it leaves Germans deeply uncertain about the timing of reforms in *procedural* terms. Again, these problems are quite novel and do

not fit easily into the theoretical discourse shaped by what we might think of as the "normal" timing challenges associated with the persistent lack of synchronization among the treaty mandates of the European Commission, Council, and Parliament.[41]

In substantive terms, successive German governments have had an interest in maintaining the narrative that the Eurocrisis is one of public debt since the alternative interpretation—that it is driven in substantial ways by underlying trade imbalances—suggests Germany may have to bear more of the burden of adjustment.[42] Since trade deficits generally have to be financed by private debt, the alternative narrative opens Germany to the charge that it is private debt, not public debt, that most determines the problems in the Eurozone. This is why debates in the German Bundestag contain constant references to Greece—where the narrative of public profligacy is easier to substantiate—and few references to Spain, which had low debt-GDP levels and was running a 4% budget surplus at the onset of the crisis.[43] If Greece didn't exist, the old CDU-FDP coalition would have had to invent it, as it plays *the* essential rhetorical purpose in their joint crisis narrative. Indeed, in a way, the populist *Bild Zeitung* has already 'invented' a Greece that consists almost exclusively of corrupt public officials and a private sector awaiting its early retirement. As German journalist Ullrich Fichtner wryly notes in this paper's epigraph, it can be hard to tell in what ways the state's official position differs.

In addition to public debt, the German government also stresses a substantial competitiveness gap between Germany and others. This gap is said to result from unrealized structural reforms in the weaker countries, and the German government

routinely references prior German reforms as a positive model. Yet Germany's own experience with structural reform in the boom period of the early 2000s is likely to be an exceptionally poor guide to such reform during the post-2008 bust.[44] It is far easier to undertake structural reforms in a time when trading partners experience surges of growth since painful dislocations are quickly compensated by new employment. Moreover, the major German reforms of the early 2000s were accompanied not by state austerity but instead were conducted in a period in which Germany was breaking the Stability and Growth Pact rules with deficit levels well above 3%. German voters seem to elide both of these facts—first, that structural reform paid faster dividends when regional growth was strong and second, that such reforms were not accompanied by austerity but indeed by its opposite. Certainly, Germans have limited appetite for cutting government spending at home. In a 2013 Pew poll, German respondents were second only to Swedish ones in approving current levels of their government's spending.[45] This is good news insofar as Germany is not practicing even more extreme levels of austerity, but it tends to make Germans appear hypocritical in the eyes of other Europeans. Statements like CDU Chief Whip Volker Kauder's that, 'Europe now speaks German'[46] add to this triumphalist tone while ignoring the fact that Germany's sinking debt-GDP ratios have come more from strong growth than from austerity, while rising debt-GDP rates in the periphery come *despite* sharp cuts in government spending.

Meanwhile, Germany's policy prescriptions have powerful unproven assumptions. Take the assumption that government austerity does no great harm to general levels of economic activity. There is good evidence, however, that the effects of state austerity on growth are

contingent. In a period of normal growth, the effects of austerity might be low, between 0.2 and 0.4% as estimated by the IMF. This means a 1% cut in public spending equates to a 0.2 to 0.4% decline in GDP. And yet when monetary policy is not playing an active role, the effects of cuts in public spending may be much higher, from 0.9 to 1.7% according to recent IMF 2012 estimates. The latter figure accords also with historical evidence from the Great Depression—the last time that monetary policy put interest rates at or near the zero lower bound—and suggests a figure of around 1.6%.[47]

Would an alternative German government behave differently? In the short term, probably not. It is true that under a 'Grand Coalition' that included an SPD Minister of Finance, the German government in 2008-2009 had its own 'Keynesian moment,'[48] However, the fact that German stimulus spending was right at the OECD average should not obscure the clear reluctance of both parties to talk openly about stimulus. In late 2010, there was a very short-lived effort by the SPD to propose a version of Eurobonds, but this quickly died.[49] Rhetorically, the SPD acknowledges the imbalances issue. For example, party chair Sigmar Gabriel stated in December 2012:[50]

> It is not about having more Europe. It is about a different Europe, a Europe where innovation and competitiveness are actively promoted, and where one doesn't simply believe that markets will do it, a Europe in which Germany does not use low wages and low taxes as a weapon against the competitiveness of its neighbors.… Of course the imbalance in Europe, especially our current account surpluses, are one cause of the problem.

The problem is that the party understands this is an electorally dangerous message. The 2013 SPD Party Conference virtually ignored the European issue, which played essentially no role in the 2013 campaign and led to no bold shifts in the two parties' coalition agreement of December 2013.

Meanwhile, German officials generally treat the undeniable fact of significant imbalances as an irrelevance, dodging this important debate by posing ludicrous rhetorical questions about whether Germany is expected to 'produce inferior goods' as a way of 'solving' the imbalance issue. Given the imbalances noted, the intransigence of the German government, and the modest alternative agenda developed by the SPD, the scope for policy reform has been limited. More precisely, whenever Germany has innovated on the monetary policy side, it flanks this with stubbornly conservative policies on fiscal and structural issues.

Why *Deutschland* Dithers: Four Scenarios

Another way to put the 'timing of politics' claim is to say that it is too simplistic to charge Germany with pure obstructionism.[51] Instead, the German dilemma in facing the prolonged European financial and economic slump is that they want to intervene neither too early, nor too late, neither too big, nor too small. Their reasons are easily understood from within the ordoliberal paradigm and moral hazard frame. If they are too early, German leaders fear they will exacerbate moral hazard problems. If they are too late, they increase the odds of contagion. If they are too big, they put German taxpayers on the hook for costs that others could and should bear. If they are too small, they run the risk of using up too much of their fiscal room for maneuver—'keeping one's power dry' is also a metaphor in German—in an ineffective intervention only to need it later on.[52] Thus, throughout the crisis, German elites have sought to convince German voters that they have a package that is both *timely* and *appropriate*. They have to be 'in the right policy place at the right time.'

If they can do so, they will have public support to put Europe on a better track. To date, however, the government has stayed consistently behind the curve, another metaphor that German policymakers themselves have often employed.[53]

The 'timing of politics' dilemma grows from the basic political economy of these four scenarios. The 'too early' fear is that rent-seeking machine politics in the Eurozone periphery will not change their ways if rescue comes too quickly. High interest rates are the market's way of delivering the reform message, and bailouts only blunt or muddle this message. German reluctance to jump in too early thus increases pressure for reforms. This scenario imagines the German state pitted against supposedly 'austerity-weary' peripheral states in an epic game of fiscal chicken. To blink is to endure another round of a self-reinforcing dynamic in which peripheral governments resist the hard reform choices. These themes—modified only slightly for polite public discourse about one's partners—are a staple of Chancellor Merkel's periodic reports to the German Bundestag. She speaks of the need to export Germany's basic 'stability culture' to the rest of Europe and of the urgency of structural reforms that have been too long delayed. Germany, the Chancellor argues, is prepared to take extraordinary steps to flank these domestic reforms, but the central reform agenda lies, in her telling, inside the Eurozone states in trouble.

The 'too late' fear is that financial markets will lose confidence in those peripheral Eurozone governments and make the rescue more expensive than it would otherwise be. In the worst case, the rescue would be too expensive to contemplate, leading to a Eurozone breakup. This scenario posits the right policy combination will secure or restore investor

confidence. Germany long betrayed little obvious concern with this problem. Indeed, for the first two years of the euro crisis, Germany's obsession with retooling the Stability and Growth Pact into the so-called Six Pack and other fiscal surveillance measures seemed to side step the necessary measures on the monetary side.[54] As predictions of a euro break up multiplied in summer 2012 and bond rates for Spain and Italy approached 7%, however, the 'too late' fear began to take precedence.[55] With Merkel's blessing of the Draghi proposal for OMT in summer 2012, the fear of 'too late' gained the upper hand over concerns about moral hazard, at least temporarily.[56]

Germany's 'too big' fear is that frightened Eurozone member states might agree on a massive intervention when a smaller, more targeted one would be preferable. Here, the political economy revolves around some of the same rent-seeking fears from the periphery that were present in the 'too early' scenario. But there is an additional worry that certain moves might work to the benefit of a few large banks but have relatively little beneficial effect for the rest of the European economy. In the worst case scenario, banks are given 'too big' a boost, and they sit on it such that it still makes no appreciable difference to the regional economy, though it may make one or another balance sheets more healthy.[57] In the German context, the Ministry of Finance experts' report on 'strategies for an exit' of the federal government from 'crisis-induced participation' in banks crystallizes these concerns.[58]

Finally, the 'too small' fear is focused on investor confidence and posits that while large interventions may shock the system back towards a virtuous circle, small and medium

interventions only eat up potential rescue resources without actually fixing the core problems. This became known as the 'bazooka'[59] debate, in which various EU-level rescue measures were judged inferior and inadequate. A second incarnation of the 'too small' fear is that some form of mutualization of new debt – for most Germans, a worrisome possibility raised in the 2012-13 discussion around banking union – might still be inadequate to relieve states of the crushing burden of older debts. Thus, while very expensive, some mutualization of future debt might be largely irrelevant to solving the ongoing Eurozone problems.

Different combinations of these anxieties have surfaced repeatedly in the German debates. Hans-Werner Sinn has worried that is possible to go both 'too big' and 'too early' and, as a result, reward both rent seekers at home (mainly the banks) and abroad (mainly peripheral state governments) at one and the same time.[60] 'Too big' and 'too late', by contrast, would likely allow some exposed counterparties to benefit from 11th hour desperation on the part of the government.[61] Meanwhile, the logic of 'too small' is not rent seeking but rather that it is merely symbolic behavior. This opens the way to different flavors of ineffectiveness, depending on whether the 'too small' is 'too early' or 'too late.' For example, the important effect of 'too small' and 'too early' is to raise the number of market participants that hope for a bailout and, by sending confusing signals, increase the subsequent hold up problems. This has essentially become the mainstream German view of the May 2010 Greece package, which failed to include bail-in mechanisms and is seen to have set the wrong signal going forward that states would bear the full burdens of bank rescue. Germany's main challenge is that it does not have the resources to experiment and to get the rescue

wrong in a big way and still have the capacity to come back and try again. This was already true during the period in which its growth and employment performance diverged wildly from other Eurozone members, and it is even more evident in times when its growth is far more modest. Whatever its strengths, it must choose very carefully the time and modality of its intervention.

Meanwhile, German voters are almost completely ignorant of the imbalance issue in the European economy. German leaders have celebrated export success for so long that they have no effective vocabulary for problematizing export success, even if they were inclined to do so.[62] In any event, they are not so inclined; acknowledging imbalances might threaten to shift some of the burden of adjustment to Germany as a matter of a fundamental course correction. Instead, German leaders have much preferred to contemplate various forms of assistance to manage the effects of imbalances but without taking steps to correct the imbalances themselves. To the extent Eurozone peripheral countries' current accounts have come back into balance since 2009, this is due far more to import declines than to export gains.[63]

Thinking Slow and Fast: German Patience and its Exorbitant Privilege

To an extent, the claim that German officials have been resistant to fundamental changes in German policy is contradicted by the many Eurozone policy innovations that have already been tried with German support and sometimes its leadership. It's certainly not correct to say that Germany gets whatever it wants in EU summits. In fact, time and again,

Germany has moved off of its initial positions—whether that was authorizing and then expanding the European Financial Stability Fund (EFSF), making it permanent with European Stability Mechanisms (ESM), later allowing ESM to participate in direct bank recapitalization, allowing ECB purchases of government bonds on the primary and secondary markets (Securities Market Program or SMP), or agreeing to Draghi's line to do 'whatever it takes' and the subsequent Outright Monetary Transactions instrument that it spawned.[64]

As a consequence, the outcome to understand is not German rigidity in any absolute sense. Instead, the pattern has been that the more institutional ground Germany cedes on the monetary side, the more determined it grows to exact changes on the fiscal and structural side. This is an underdeveloped insight in the literature so far, and it helps explain why we have the strange combination of frustration and even rage against ordoliberalism *outside* Germany and the simultaneous despair of many ordoliberals *inside* Germany.[65] Every time there is a new concession to troubled Eurozone states, Merkel doubles down on the calls for fiscal rectitude and structural reform—calls that cannot all be met in electoral democracies. By flanking her institutional concessions in this way, Merkel has, so far, kept both the Constitutional Court and the voters on her side.

The most important caveat to this generalization is the Court's February 2014 ruling that the ECB's Outright Monetary Transactions violate German law that requires Bundestag approval of fiscal and economic policy. Indeed, while most proponents of OMT argue that the ECB could only fulfill its monetary policy mandate with a new instrument that could

fix the broken interbank lending market in crisis-hit countries, the Court took a different position, namely that OMT lay outside the ECB mandate because it put the Central Bank in the potential position of incurring losses in bond purchases that could hit national taxpayers without their direct approval.

Thus, there has been policy innovation, but a hallmark of German policy has been slow and deliberate measures, often punctuated by mild backtracking or even outright reversal.[66] This section makes two points about this uneven trajectory. First, it notes coherent reasons for German delaying tactics. Second, it makes the point that Germany began reaping unexpected benefits of the crisis—what I call its 'exorbitant privilege'—that actually made it harder to embrace a shift away from the status quo, further cementing this politics of delay.

Citizens of the countries most afflicted by the Eurozone crisis are desperate for relief, but German policy has stressed incremental reforms of the Eurozone framework and, especially, the deeper constitutionalization of fiscal balances already agreed in earlier periods. Why the slow, painstaking reinvention of fiscal wheels when the problems evidently lie so much deeper? The German government has had several aims in buying time, such that the slow pace of reform is overdetermined. To be clear, the German government would love to solve the Eurocrisis and has, at times, clearly been desperate to do so. But it has judged that no available options were superior to the course it has chosen, and that course, because it required and still requires very extensive adjustment in the peripheral states, is understood to be a long-term project.

First, German delays ensure that fundamental reform impulses must come from the states whose financing models are most under threat. German delays ramp up—or at least fail to relieve—the reform pressure on governments in the Eurozone periphery.[67] Second, moving slowly increases pressure on private counterparties to accept losses or 'haircuts.' Merkel's insistence that private counterparties accept losses ('adequate participation of private creditors') in the second restructuring of Greek debt suggest this motive was already operative by the October 2010 Deauville summit, at the latest.[68] Third, Germany sought to use delays to provide a window of time in which its own banks could get healthy after heavy exposure to the bonds of Southern European states.[69] Finally, a fourth motive for buying time might have been the significant mismatch between Germany's own very static financial regulatory practices and substantial new experiments in the financial sector over the 2000s. Germany has long sought to upload its domestic practices – in function if not always in form – to the European level. While this tendency admittedly had tapered off after the end of the Kohl governments, Germany has no appropriate system of financial regulation to upload.[70] Instead, it has a badly fragmented financial supervisory system that is essentially a permanent tug of war between the Bundesbank and the *Bundesanstalt für Finanzdienstleistungsaufsicht*.[71]

These are coherent reasons why a Germany eager to solve the Eurocrisis might still drag its feet on proposed reforms. As a matter of timing, they join with the complexities in the first section in which the German government's obsession with moral hazard complicated efforts to find a solution. Influenced by this inclination towards incrementalism, as the

crisis has dragged on in the periphery while Germany enjoyed excellent labor market performance and strong exports, German officials have become more and more wedded to their favored narrative: they both celebrated Germany's excellent record and grew increasingly bold in prescribing 'German-style' reforms for troubled Eurozone states.[72]

The final point of this section is that to all the other reasons for policy conservatism, we have to add that the striking success of the German economy has reinforced Chancellor Merkel's conservatism and that of German voters. Merkel's policies towards the Eurocrisis have been clearly successful in a political sense, as voters credited her government with solid management of the German economy and of her European policies. In fact, Pew Data (2013) show a massive gap between German attitudes and those in much of the rest of Europe when it comes to the Eurocrisis.[73] Satisfaction with the economy in Germany was 66 points above the EU average, while smaller gaps separated Germans from the EU average on personal finances (26%), European integration (28%) and German leadership (48%). Only in Germany did a majority (54%) still believe that economic integration would strengthen national economies. Perhaps related, German respondents also were, by far, the most likely to support further centralization of power in the EU. Meanwhile, Merkel is Germany's most popular politician. Her approval ratings generally ran a whopping 30% above her challenger throughout the 2013 electoral season.

If Merkel has benefitted politically, Germany itself has benefitted economically to an extent. In fact, as the Eurozone periphery countries began to falter, Germany began to benefit in certain ways from the stress and strain in other parts of the Eurozone. By far the

most important of these is the bottoming out of interest rates in Germany. Ten-year rates on German bonds went from above 3% to just over 1% in spring 2013 as the 'flight to safety' produced negative real interest rates that dramatically reduced German debt service costs. One estimate, by the Allianz insurance company, calculated German interest savings at around €67 billion over several years.[74] Other estimates have been lower, but no one disputes that these benefits have accrued (indeed, the government plays them up in public reports, presumably as a way of countering the fear that German generosity has gone too far). Of course, these low rates have stimulated private investment in Germany as well, and area where rates have been strikingly low for a long time. Another very real benefit has been the influx of skilled labor into Germany from more distressed Eurozone economies. Germany's net labor inflow was 420,000 in 2012.[75] Finally, one could point to the benefits to Germany of the weakness of the Euro itself. While the Euro has strengthened in the wake of the OMT/'whatever it takes' announcements, there seems little doubt that had Germany had a national currency, its booming economy in after 2010 would have led to substantial appreciation. Instead, its export conditions have remained healthy, an advantage Germany shares with a few other (mostly Northern European) states in the Eurozone.

To be sure, this German version of 'exorbitant privilege' is clearly not of the same scale or duration as that long enjoyed by the United States.[76] But it has been an unexpected boon that makes the struggles in the Eurozone periphery beneficial to the German economy. Of course, my argument is not that Merkel's government designed these advantages. Instead, the point is that the flight-to-safety dynamics made even more popular, policies of restraint *that were already wildly popular* in Germany. With Eurobonds and true fiscal federalism

off the table and with austerity and structural reforms predictably failing to fundamentally alter the crisis dynamics, the search resumed for another tool.

Can Supranational Banking Union Save the Eurozone?

The first major section of the paper stressed the imbalances of the past, and the second stressed the current predicament. This paper's final section looks to the future and focuses on the plans for a banking union to complement monetary union. This paper has been animated by the irresolvable tension between a Germany that genuinely seeks a solution to the European financial crisis and a Germany that is determined to minimize the costs of such a solution. The result has been halting and contradictory policy. The last section showed that in addition to German fears of being called on to rescue other Eurozone states, the crisis in the periphery has actually brought very concrete benefits to Germany, further undermining the political incentives for policy change. The paper's final section projects this tension forward, looking in particular at the banking union as emblematic of Germany's policy timing and substance dilemmas. Once again, we see a Germany that tends to slow walk the crisis and emphasize fiscal rectitude and structural reform as the solution to the Eurocrisis.

While the intergovernmental route to economic union is likely to continue the pattern of incremental change, the banking union announced in summer 2012 was, at least in principle, due to move much more quickly. A primary trigger for banking union was the awkward combination of supranational banking activity and national regulation, which, in

the post-2008 period, had led to widely diverging credit conditions such that similar firms in different states had very different access to capital.[77] Moreover, banking union promised to break the 'doom loop' between banks and sovereigns and, as such, promised a way forward without the Eurobonds that Merkel had ruled permanently out of bounds and whose rejection had been codified in her party's coalition agreement with the Social Democrats.

As currently conceived, banking union is to rest on four interrelated pillars: regulation, supervision, deposit insurance, and resolution. These pillars are, however, at very different stages of construction, and some may not happen at all. The outlines of the supervision dimension are fairly clear. Ultimate responsibility for supervision rest with a single entity, the European Central Bank, which has developed a new apparatus to engage in so-called asset quality reviews of systemically important banks and will take over supervision of these banks by November 2014. This handover will create what Wolfgang Schäuble refers to as a 'timber-framed' banking union.[78] If he has his way, this will be followed, at a later point, by substantial change of the European treaties to pave the way for a 'steel framed' banking union. German support for the SSM has been contingent upon some accommodation of the politically important savings banks (*Sparkassen*), whose local structure means they have connections in every electoral district in the country.

This will be a major undertaking. Veron shows that while the existing treaties can support envisaged legal innovations in both prudential regulation (article 114 of TFEU) and SSM (article 127(6) TFEU) – though it is likely that smaller-scale treaty adjustments will be

undertaken at a later date – the legal basis for both European-level resolution and deposit insurance mechanisms are lacking and would require a treaty change for a robust basis.[79] My interviews in the German Ministry of Finance and with CDU and SPD officials confirm that while the EU has been able to engage in constitutional innovation though intergovernmental treaties in cases such as the ESM and the Fiscal Compact, the legal basis sought for resolution, in particular, is likely to be more robust and to be sought through the main EU architecture and not as separate agreements. Indeed, in July 2013, the Finance Ministry even obliged formal transposition of an EU provision that had direct effects.[80]

After German objections led to the imposition of a minimum threshold, the ECB will supervise all banks with more than €30 billion in assets.[81] This will correspond to more than 130 banks that hold 80% of Eurozone banking assets.[82] Starting in late 2013, a process of 'publically-led triage, recapitalization, and restructuring' commenced, leading to the ECB's development of a 'manual' by March 2014.[83] The daunting technical challenges have been made somewhat easier by the ECB's better access to clean information than was true of the earlier European bank 'stress tests' run by the European Banking Authority headquartered in London. A major impediment, however, lies in the fact that as the ECB uncovers banking problems, the member states will still be responsible for resolving them. This 'handover problem' is critical.[84] The ECB has every incentive to ensure that the banks it will take under its supervision have a healthy basis. But the financial resources that will likely be required in any vigorous assessment would need to come from member states. Germany's preference for strictly rules-based regimes for handling such recapitalization

and resolution issues is also unlikely to prevail given the likely substantial involvement of politically-sensitive creditors—including national pension funds.

German opposition has also prevented use of the ESM for bank recapitalization, a situation that seems likely to persist until after the handover of authority to the SSM in 2014.[85] An important consideration will be the extent to which legacy debts can be identified, legally realized and nationally resolved prior to such a handover. The most credible forward-looking situation would be one in which rigorous European-level reviews and ample national restructuring and resolution funds take place in advance. These are, of course, exactly the circumstances most likely to strike hard at the most fiscally-exposed Eurozone states and to open the possibility that, for example, senior unsecured creditors may get far more favorable treatment in fiscally solid states than in those states with more severe funding pressures. That said, ESM ought to be available to backstop these states, if not, as noted, the banks directly. Moreover, Veron argues that markets have, to an extent, priced in large if necessarily uncertain resolution costs for certain Eurozone members and thus resolution costs ought not to lead to a loss of market access.[86]

On the Single Resolution Mechanism, we have clear conflict between the Commission and the ECB on one side and the German government on the other. Part of the problem is that there is little clarity on the size of potential bank losses. Financial journalists have estimated such losses at €1-1.6 trillion, though the higher estimates seem to assume bad assets will equate automatically to the need for new capital.[87] Assuming some asset recovery plus available loss provisioning, others come up with figures closer to €400 billion—still

daunting but not as cataclysmic as €1.6 trillion.[88] An additional worry is that any credible asset quality review and stress test would seem to require frank acknowledgment that holders of bonds of some Eurozone governments face the risk of at least partial default. This would imply an end to the practice of rating these bonds as zero-risk.[89] And yet any such move would raise future borrowing costs for governments, possibly sparking financing problems that would hammer both governments and the banks.[90] As of summer 2014, however, European banks had generally made surprising progress towards raising capital in advance of the fall stress test scenarios. The *Financial Times* reported that European Tier one capital levels are nearing 12% on average, roughly the same proportion as among American banks.[91] Averages can hide a lot of variation, and it seems likely that some important banks may fail the tests. Perhaps a more pressing medium term challenge will be to profitability levels in the sector.[92]

Such difficulties are emblematic of a host of potential problems for a single resolution authority. When the European Commission announced its plan for such a European-level resolution authority in July 2013, two problems immediately surfaced. The first was explicit German opposition to the idea of a European authority in the first place on the grounds that banking problems were a matter for sovereign states to regulate. Merkel and Hollande released a paper to this end just prior to the Commission announcement.[93] Second, the Commission failed to call for the use of the ESM as an initial backstop for such a mechanism.[94]

One major reason for Germany's opposition to several facets of the banking union is the receding of pressure on the Eurozone and the growing sense they can muddle through. Berlin has clearly backed away from any idea of an early intergovernmental conference that would be required for major change to the European treaties. Berlin will still seek the smaller changes that would allow them to have economic union—essentially, Merkel hopes, in the form of a kind of Lisbon Process with teeth. One can draw up the intergovernmental contracts noted earlier under existing treaties, but to either punish or reward (with EU budget funds) contracting states would require treaty change, and there is currently little evidence that Germany could find many member states willing to sign up for such contracts. Germany has also dropped the idea of a 'super-commissioner' to enforce budgetary discipline, a Schäuble idea that Merkel never supported. Germany perceives other risks from moving ahead expeditiously. The European Parliament might oblige a formal convention—they did not do so for ESM—in part because a larger convention might open the door to greater powers for the EP.[95] Meanwhile, other member states have their own wish-list for a treaty change, some uncongenial to Germany, and this seems, for now, to have convinced the German government to trudge forward without a treaty change.

Its overall position puts Germany substantially at odds with the European Central Bank. Jörg Asmussen, who was an economic advisor to Merkel before joining the ECB Executive Board, had made an explicit call for a 'European Backstop' in a speech in London just prior to the Commission announcement.[96] The Commission proposal, though it does foresee a European agency, would not have resources to help close an ailing bank. Germany's alternative proposal is for a resolution mechanism that coordinates those of the member

states. On the one hand, this position perfectly replicates its general orientation against exposing German taxpayers to banking resolution problems in other states. On the other hand, it does nothing to address the issue that many national programs are woefully underfinanced and completely incapable of resolving troubled banks in the states in question. Several academic studies warn that European-level supervision and national-level resolution will lead to misaligned incentives.[97] They mirror the position of the ECB as articulated by Asmussen that separate national resolution funds will invite jurisdictional fights that hamper rapid responses to banking crises.[98]

Given the main thrust of this paper, it is comprehensible why German politics should be fixated on slowing or preventing the establishment of a new authority on deposit insurance and resolution. These activities are traditional areas of national discretion and—and this is more relevant to Germany—pooling liabilities might expose Germany to bank losses in other member states. While this paper has stressed that German behavior and German rhetoric are often out of synch with one another, banking union appears to be an area where apparent German refusal is indeed built upon a foundation of actual German refusal.

Conclusion: Why it so hard to get the right Eurozone policy at the right time?

This paper has tried to make sense of the future of the Eurozone by looking at Germany's institutional constraints and at the beliefs of ordinary citizens. If Germans sometimes appear dogmatic today, this is a superficial phenomenon. To be sure, there is a veneer of populist *Bild Zeitung*-fueled patter about the need for all of Europe to follow the German

model. But this patter is as self-deceptive—because conditions for German structural reforms in the early 2000s were far more supportive than today—as it is self-congratulatory, and many Germans do doubt their government has found the key to the Eurocrisis in a bracing set of structural reforms of state and market. This uncertainty and tentativeness is sufficient to keep Germany from enacting policies that might have (and perhaps might still) refashion the Eurozone in a more sustainable way. And because the ambivalent and uncertain side of Germany dithers, it gives an additional advantage to those countrymen who defend the untenable status quo, which, in its crudest form, is simply 'prosperity for us; austerity for you.'

This paper made this argument by covering three main issues: the 'problem' of trade imbalances, which German leaders and voters do not perceive as a problem at all and around which there has been very little serious debate; the exorbitant privilege that unexpectedly accrued to Germany during the Eurocrisis and that helps prevent a major course correction by Germany; and the partial banking union now being constructed in a period of relative calm that has reduced German incentives for a more far-reaching design. The paper showed that each of these already complex issues was made more complex by issues of timing. This kind of timing issue goes well beyond the very useful theoretical literature on what one might call the temporal inconsistencies of inter-institutional articulation at the EU level.[99] Instead, this paper has focused on extended nightmares of timing that have arisen between member states and between constituent parts of the EU in a setting that is anything but routine.

Going forward, there is every reason to think the imbalance problem—deeply anchored in German fascination with exports and grounded in deep strengths in German manufacturing—will persist in some form. It seems much less likely that the various aspects of Germany's exorbitant privilege will endure. The flight to safety saved Germans tens of billions in financing costs, but can negative real interest rates for one country and punitive ones for another be a stable outcome? This seems doubtful. And the boom in immigration, while helpful to Germany, may also prove short-lived. An OECD study suggests most Greek and Spanish immigrants return to their home country within a year of moving to Germany.[100] So what if the imbalance stays, the privilege goes, and the banking union—in any event, a mechanism to deal with future problems but with virtually nothing to say about the resolution of past problems—never really arrives in any full-fledged way?

Until new crises emerge, it seems the current muddling is foreordained. German voters have, very recently, heartily approved it and would be unnerved by any decisive steps by the new German government that broke from this course. The current path keeps the pressure for adjustment almost exclusively on other countries, and this is seen as entirely correct in the German debate, owing to the self-evident vice of the deficit countries and self-evident virtue of the surplus countries. While there has been some recent real wage growth in Germany, public finances remain focused on balance. Indeed, a recent IMF report on Germany felt compelled to caution that the country should not be 'overperforming on consolidation.'[101] Additionally, the December 2013 coalition agreement among the three governing parties foresees only very modest expansionary measures of about 0.1% of GDP annually.[102]

Meanwhile, export outlets outside the Eurozone have grown in attraction while established Eurozone customers may have low purchasing power for years to come. Germany's ferocious export boom that started around 2003 eventually led, by 2007, to a more than €100 billion external surplus with the Eurozone at a time that Germany's surplus with non-EU states was under €40 billion. But times have changed. As the Eurozone stagnated, demand from outside the EU boomed. By 2012, the positions had nearly reversed, with non-EU 27 states running a nearly €100 billion deficit with Germany while the Eurozone deficit had shrunk to about €55 billion.[103] Germany has very successfully diversified its export portfolio, and this seems to have eliminated some of their urgency to resolve the Eurozone crisis.[104] The only problem is the specter of trade and currency battles with trading partners around the globe.

But if the muddling is undeniable, it's not clear the Eurozone will really get through. Whether and how Germany should try to fix the Eurozone also depends on one's view of the medium run. Even presuming the 'imbalances' approach stressed here is correct, it is actually not obvious that this euro can be repaired. For the most part, the imbalances argument *tends* to be used by those who question German sanity. The form it takes is 'Germany profited enormously from this euro, and this is why its austerity mania is *hypocritical* (because Germany gained all along from others' indulgent spending), *unwise* (because it fails to do more to rescue the system that has made it prosperous), and tactically *clumsy* (because it synchronizes deflationary impulses).

But one could also accept the imbalances approach and simply say that while it was good while it lasted, the euro experiment has hit its endpoint and German leaders have concluded that it can't be reformed for another round. To be sure, this position is one where the glass is acknowledged to be half empty: much of the apparent export success of recent years will have to be compensated by German taxpayers resolving, recapitalizing, or bailing out the German banks that helped finance it.[105] But, according to this view, German efforts to strengthen and retain the Eurozone would just mean throwing good money after bad.

The politics of timing started with the 'intrusion' of the German voter into the domain of financial politics, something that has typically been an elite domain in Germany. Banking bailout politics are now so expensive, however, that mass politics has forced its way in. But while German voters are most certainly now paying attention, the dilemma is that by the time politicians convince them of the need to support a certain financial remedy, the Eurozone problems have grown to such a size that this remedy no longer works. A new remedy is required, and the process of explaining the need for it begins again, only this time with increasing voter skepticism that the elites know what they are talking about.

The resulting populist discourse, along with the institutional divisions in German politics, has persistently granted Merkel an important edge in her negotiations. Typically, at the more than 30 EU summits since 2009, Merkel bargains hard but often makes some concessions. A breakthrough of some kind is announced and a certain collective sigh of relief is registered in Europe. At that moment, other actors in German politics often begin to counter or at least delay what Merkel has agreed. Such actors include the Bundesrat, the

Constitutional Court, and, above all, the Bundesbank. These are not entirely quiet rearguard actions, and if they were, they would lose one of their most important effects: to calm German voters.

All of this reverses the usual picture of the 'semi-sovereign state' in Germany.[106] According to Peter Katzenstein's formulation, policymaking in Germany moves slowly and deliberately because a plethora of actors are constitutionally empowered to participate in decision-making. Once the system produces a decision, however, the general assumption is that the very corporate partners who gave their assent in the first place will carry it out. What was a hindrance in conception becomes a help in execution. What we are seeing now, however, is a different, in some ways opposite, story. The Chancellor goes to summits and, however grudgingly, agrees to things, which then get walked back in succeeding weeks. Take early summer 2012, when many European leaders thought Merkel had agreed that the ESM could directly fund ailing banks. In subsequent weeks, the Bundesbank strongly disputed this, leaving other European partners wondering. Or take the OMT, which appears to have brought months of relative calm to the markets. The German Constitutional Court—as discussed above—has suggested OMT is not compatible with German law. Because the Court asked the ECJ to weigh in, many commentators have assumed a more Euro-friendly court can bless the OMT. But this is not really what Karlsruhe's decision says. Instead, the subtext is far more to call on the ECJ to adapt the OMT to Germany's needs.[107] If the message is 'fix it or we will nix it,' there may be much more trouble ahead for OMT. Finally, the apparent breakthroughs on banking union in 2012 now appear much less secure once one moves beyond the supervision pillar. Thus, does German indecision

persist, as does the misery in Europe. There is little reason to expect it to abate any time soon.

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Endnotes

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[2] See Jones, 2010. Also, Adam Posen's comment that 'Merkel does not get basic economics' was widely reported. See *Spiegel Online International*, March 31, 2009. http://www.spiegel.de/international/world/us-economist-adam-posen-merkel-does-not-get-basic-economics-a-616561.html
[3] See Shaw 2013
[4] Silvia 2011; Dullien and Guerot 2012; Jacoby 2014.
[5] Zimmermann 2012
[6] After some false starts in the 1990s (e.g. Schedler and Santiso 1998) that sparked little follow-up, Pierson 2004, Goetz and Meyer-Sahling 2009, Dyson 2009, and Meyer-Sahling and Goetz 2009 all pushed forward the agenda on time and timing.
[7] See Newman 2015
[8] If the post-Outright Monetary Transactions period (e.g., after June 2012) turns into a permanent normalization of the Euro, the main argument of this paper—that much trouble still lies ahead—will be disconfirmed.
[9] Bibow 2013, Scharpf 2011, Jacoby 2011, Dullien and Fritsche 2009
[10] See Jones 2015
[11] c.f., Eichengreen 2010
[12] To be sure, while it brought no electoral earthquake, the May 2014 European elections did show some differences from the general election results of six months earlier. The SPD finished only 8 percent behind the CDU/CSU (compared to its 16 percent deficit vis-à-vis the CDU in both the 2013 German election and the 2009 European parliament elections). More important, perhaps, the *Alternative für Deutschland* (AfD) increased its general election vote totals from 4.8 percent to just over 7 percent. AfD's only meaningful electoral proposition is to end German support for Eurozone bailouts and to persuade weaker Eurozone states to voluntarily withdraw from a monetary union that offers them nothing but austerity and structural reform. The core of the ordoliberal perspective on the Eurozone resides in the AfD and, to some extent, in the Free Democratic Party, which has done very poorly in both the German and European parliament elections. See Jacoby 2014.
[13] Bibow 2013
[14] http://www.washingtonpost.com/wp-dyn/content/article/2009/03/01/AR2009030100389.html
[15] http://www.economist.com/blogs/easternapproaches/2011/11/polands-appeal-germany
[16] http://www.spiegel.de/international/europe/german-finance-minister-rejects-obama-criticism-of-crisis-management-a-840749.html
[17] http://www.bloomberg.com/news/2012-05-31/merkel-s-isolation-deepens-as-draghi-criticzes-strategy.html
[18] http://online.wsj.com/article/SB10001424127887324879504578601780260101590.html
[19] http://www.euractiv.com/sections/euro-finance/brussels-renews-criticism-german-trade-surplus-300733; http://www.euractiv.com/sections/euro-finance/brussels-renews-criticism-german-trade-surplus-300733
[20] A loose translation: 'when I dream of Germany in the night, instead of sleep my mind feels fright.' http://www.youtube.com/watch?v=1g7AP2Qrrn4 (the talk is split in two).
[21] http://www.youtube.com/watch?v=CHhu3zsGdWw
[22] e.g., Schwarzer and Lang 2012
[23] See, for example, Schelkle 2012, Zohlnhoefer 2011, and Bergsten and Kirkegaard 2012
[24] Schwarzer 2013; Vail 2015
[25] Mabbett and Schelkle 2013

[26] The Court said Bundestag approval would be required for any increase above the €190 billion (of the ESM total of €500 billion) already committed by Germany.
[27] Sinn 2012
[28] http://www.cesifo-group.de/ifoHome/policy/Haftungspegel.html.
[29] http://www.businessweek.com/articles/2012-05-24/bloomberg-view-germanys-banks-must-assist-in-europes-cleanup. Here, too, there are measurement controversies. While Germany is responsible for 6% of IMF assistance and 26% of ECB measures, Sinn notes that in certain default scenarios, the remaining Eurozone states would have to absorb burdens from the defaulting states. He puts the worst-case scenario for Germany at 41% of ECB exposure. See http://www.cesifo-group.de/ifoHome/policy/Haftungspegel.html.
[30] http://uk.reuters.com/article/2013/05/02/uk-eurozone-bailouts-idUKBRE9410C920130502
[31] Blyth 2013
[32] See Newman (2015) for a more detailed analysis of German politicians' choice to play up the 'moral hazard frame' and play down the 'contagion' and 'trading' frames. The latter problem is the focus of this section. Jones (2015) and Hopkin (2015) report these same events from the perspective of Southern Europe.
[33] And despite increased critical attention—including from the US government—the surplus hasn't really shrunk. According to the Ifo Institute, an economics think tank based in Munich, the surplus for 2013 was 7.3% of GDP; it is estimated to be 7.4% in 2014. See: http://www.cesifo-group.de/ifoHome/presse/Pressemitteilungen/Pressemitteilungen-Archiv/2014/Q1/pm_20141014-Kapitalexport.html
[34] Blyth 2013
[35] Scharpf 2012; Jacoby 2013
[36] Bilbow 2013; Jones 2015
[37] Bastasin 2013
[38] By contrast, Germany's service sector is not terribly competitive. Its last surplus was in 1961.
[39] For a characterization of Germany as Europe's 'Company Store', see Jacoby 2011.
[40] For a representative effort to deflect these criticisms, see then-Foreign Minister Guido Westerwelle's Paris speech. http://www.auswaertiges-amt.de/DE/Infoservice/Presse/Reden/2013/130524-BM_Le_Monde.html
[41] Goetz and Meyer-Sahling 2009: 180-83.
[42] To be sure, this is less true of the junior partner (SPD) than of the senior partner (CDU-CSU). Still, their coalition agreement contains an explicit disavowal of any form of debt mutualization and several reiterations of the CDU-CSU's basic policy line across the crisis. It is not clear the SPD sought in the agreement any important changes in policy towards the Eurozone. In any event, they achieved none.
[43] Most references to Spain are from the Left Party, which has not made electoral headway with the argument that the suffering in the Eurozone periphery is linked to Germany's export dominance. Those ordoliberals who now hope to see Germany use a different currency from Spain, Greece, and Portugal also stress the enormous suffering in the South that is a predictable consequence of clinging to a common currency and forcing all adjustment through domestic wages, prices, and employment (Sinn 2012, 2013 Kerber 2013). In that sense, the German left and right have made very similar arguments, while the rest of the nation 'plugs and shrugs.'
[44] Bastasin 2013
[45] GMFUS 2012, chart 10
[46] http://www.presseurop.eu/en/content/article/1194641-myth-german-economic-discipline
[47] Almunia et al 2010
[48] See Vail 2010; Farrell 2010; Blyth 2013
[49] Steinbrück and Steinmeier 2010
[50] Bundestag Drucksache 17/214: 26201
[51] Beck 2012
[52] A related metaphor with an even more pessimistic twist was Finance Minister's Schäuble's February 2012 reference to Greece as potentially a 'bottomless pit.'

[53] For some (e.g. Beck 2012), German delay has, itself, been a tool for exercising power. While this paper does not deny that German delays can increase the desperation of their European partners to find a deal and thus lead to terms more comfortable for Germany, the stress here is on Germany's own dilemmas of disorientation.
[54] Mabbett and Schelkle 2013
[55] See Jones 2015
[56] Gros 2013; Fuertes, Kalotychou, and Saka 2014
[57] Admati and Hellwig 2013
[58] Expertenrat 2011
[59] This was a dated and bizarre metaphor. The bazooka is no longer a particularly fearsome weapon. It was also highly visible and often got the user quickly killed for his efforts.
[60] Sinn 2013
[61] Admati and Helwig 2013
[62] German voters thus generally do not understand that the persistent current account surpluses are linked to Germany's low—relative to other OECD countries—private consumption levels and low domestic investment levels. Neither do they see the contribution of the savings represented by such surpluses to broader deflationary pressures in the Eurozone. While such phenomena are obviously complex in their own right, it is not helpful that the modal German response to the imbalances worries seems to be, 'what do they want us to do? Make inferior products?'
[63] And does nothing to address a near-decade of accumulated debts.
[64] An important caveat here is that the Constitutional Court may still prohibit German government and Bundesbank participation in OMT, contingent upon a review by the European Court of Justice.
[65] It also points to the fact that ordoliberal ideology makes a weak explanatory cause of crisis behavior simply because ordoliberals are on all sides of every important question. Ideology underdetermines behavior in this case (Jacoby 2014).
[66] Beck 2012
[67] Germany's own earlier and more aggressive labor market reforms came precisely during a period in which state spending was expanding rather than contracting. This fact seems to have escaped the German popular imagination, which often implies some version of 'we made the tough choices to promote competitiveness and now so must others' (Privatera 2013; Bastasin 2013).
[68] The most recent agreement on bank resolution at the EU level calls for a minimum of 8% participation from private sources—creditors and owners—before public money can be used.
[69] Still, Gros 2013 shows that German banks are still the most exposed to sovereign debt (their own state's and others') of any banks in Europe.
[70] Paterson and Bulmer 2010
[71] Zimmermann 2012
[72] Privatera 2013; Bibow 2013. This triumphalist narrative also tends to obscure that Germany has also been hit by the crisis. Most importantly, there have been spectacular bailouts of a few financial institutions (with perhaps more trouble for the *Landesbanken* after the Asset Quality Reviews) and also much more quiet use by German banks of swaps with the US Federal Reserve and ECB LTRO provisions, as German banks are particularly reliant on wholesale funding.
[73] These figures should be treated with caution. Cost considerations meant Pew could sample in only eight EU members (Germany, Britain, France, Italy, Spain, Greece, Poland and the Czech Republic).
[74] http://uk.reuters.com/article/2013/05/02/uk-eurozone-bailouts-idUKBRE9410C920130502
[75] Fratzscher 2013
[76] Eichengreen 2010
[77] Veron 2013: 4
[78] Schäuble 2013
[79] Veron 2013: 5-6
[80] See the testimony at https://www.bundestag.de/bundestag/ausschuesse17/a07/anhoerungen/2013/index.html
[81] The Sparkassen continue to push for upward revision of this figure to €45 or even €70 billion.
[82] The number of banks could go as high as 200.
[83] Veron 2013: 8

[84] Veron 2013: 9
[85] The December 2013 coalition agreement between CDU/CSU and SPD foresees some possibility of ESM use for bank recapitalization up to 60 billion euro after several conditions have been met (Bartsch 2013).
[86] Veron 2013: 13
[87] Munchau 2013
[88] Kapila 2013; http://www.roubini.com/forum?utm_source=contactology&utm_medium=email&utm_campaign=RGE%20Daily%20Top%205%20Wednesday%20June%2026%202013#{%22thought_id%22%3A%22thought.1372180325275%22}
[89] Jones 2015
[90] Gros 2013
[91] July 3, 2014. http://www.ft.com/cms/s/0/e4d05a72-0141-11e4-9750-00144feab7de.html#axzz371RsYDDz
[92] For an excellent survey, see Oliver Wyman 2013.
[93] http://www.bundesregierung.de/Content/EN/Reiseberichte/2013/2013-05-30-merkel-paris.html
[94] Reuters, July 10, 2013. http://uk.reuters.com/article/2013/07/10/uk-eu-bankingunion-idUKBRE96908H20130710
[95] http://www.cer.org.uk/insights/germany%E2%80%99s-plans-treaty-change-%E2%80%93-and-what-they-mean-britain
[96] Asmussen 2013
[97] See, for example, Schoenmaker and Gros 2012, among many others.
[98] Ibid. 6
[99] Goetz and Mayer-Sahling 2009.
[100] http://www.spiegel.de/international/germany/oecd-study-finds-large-numbers-of-immigrants-leave-germany-a-905583.html
[101] http://www.spiegel.de/international/business/imf-tells-germany-to-loosen-its-fiscal-stance-a-915268.html
[102] Bartsch 2013
[103] Bundesbank data.
[104] Thus, even authors very sympathetic to Germany on the imbalances question are likely to be disappointed in its response to their calls for sharp write downs of German claims in peripheral Europe. See Rogoff 2014.
[105] The notion that the imbalances can be corrected is actually the position of the Commission, with its excessive imbalance procedure.
[106] Katzenstein 1987
[107] Watt 2014