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**TITLE: “Germany in the EU: The Greek Crisis and  
Germany”**

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## 1. Welcome Note

Greetings and thank you to various institutions: Hitotsubashi University and Tsuda Colleges, EUSI and EUIJ and the audience.

## 2: Introduction of the topic today

The topic of my talk today is both timely and highly complex.

### Timely:

- Greek Crisis has been the global economy's "topic of the year" so far
- G20 meeting in Toronto this weekend
- Obama fears that the euro mess could lead to a refreezing of worldwide banking markets and derail the global economy.
- George Soros suggested in an interview this week that the EURO might collapse and it would then be Germany's fault. He described Germany and its current austerity policy as "globally isolated".

Germans have similar fears themselves in the heartland of the Euro currency. For the first time really, problems in the periphery are striking home at the centre. Germany's reaction to the crisis is gradually becoming clearer. It is not something that neighbours and allies will be keen to hear. The message seems to be that both Germany and France are seeking gradually to take control of the European Economy –with different visions though. France tends to blame the lack of central European policy co-ordination for the Euro area, while Germany, reluctant towards political interference with the independence of central banks, price stability and sound public finances, perceives a wide-spread failure of member countries to bring their house in order as the main cause of the crisis.

The central German message resulting from the current crisis is at least threefold:

1. Germany is becoming more self-centred in Europe. Merkel's various remarks in recent weeks, for example, her request for cracking down on short selling on security markets, indicate that Germany is willing to introduce go it alone action if it feels it warrants its own domestic circumstances.
2. Germany will continue to rely on boosting exports and less on domestic consumption to overcome the crisis
3. Germany is likely to become more rather than less vocal in advising and pushing other countries in the euro area on how they should adjust their economies. This will lead to further tensions within Europe in the years ahead.

### Complex:

The talk will look at the Current Crisis of the EURO as a result of difficulties in Greece (and Portugal, Ireland Spain and Italy). By doing so, it will focus on Germany's role in responding to the crisis but understanding the German policies requires us to look deeper at the larger picture of Europe's place in a changing world order, Germany's historical role in Europe, the central position of the Franco-German axis and the changing nature of the general German government outlooks within domestic constraints in policy making. This is roughly what the lecture intends to do.

### **3. Europe in the World: What role for the united continent in the Changing World Order?**

Before returning to Germany's role in the currency crisis in detail, let me look at the larger picture of Europe's general place in a changing world order. It is necessary in order to understand why Germany is on the one hand so committed to the EURO project while at the same time being so scared of its potential failure. The EURO remains the best symbol of a united Europe that is a significant player in world affairs.

#### Europe's Role in the World: Discourses on World Order

Ever since the end of the Cold War, debates on European are influenced by larger waves of change in global politics as world order. The roots of the acceleration of economic globalisations can be traced back to at least the early 1960s. Without summarising the debates on global order which others have done, it is striking that the established experts on European foreign policy and on European economic integration engage far too little with scholars on global order, economic globalization, global governance and regional and area studies. This is a serious intellectual deficit that, however, should not be elaborated on in this lecture.

Larger visions of world order have come in different fashions over the last 20 years and include roughly ten versions:

\*First, US hegemony in a uni-polar world

\*Second, neo-realist instability at a global scale. No power or group of powers would dominate and no hegemon would manage to stabilise regions. The likelihood of wars and crisis spreading around the world would be high

\*Third, either antagonistic or cooperative multi-polarity with several distinct poles or concentrations of old and new powers such Russia, China, India and Brazil (more or less challenging established powers in the West). Multi-polarity could be cooperative assuming that the few major powers would cooperate on defining rules and would discipline those who violate them. In the 1990s, a well received variant of this vision was the concept of tri-polar regionalism (US, EU, Japan) with competing trading blocs. Alternative visions of multi-polarity are perceived as fiercely competitive with the possibility of dialogue between major powers possibly breaking apart

\*Fourth, hierarchical (top and great powers, middle powers, small powers or alternatively super-powers, great powers, regional powers) and "layer-cake-models" of order with uni-polar, multi-polar, multi-regional and transnational layers with regard to different policy areas

\*Fifth, a return to bi-polarity with the US (West) and China heading for the new clash in the 21century

\*Sixth, cultural friction, clash of civilizations, asymmetric warfare and globally networked terrorism as the defining feature of an unstable world

\*Seventh, notions of a more stable transpolar order where economic rather than political power is decisive and where states are in rapid decline as they are overtaken by business, markets and other non-state actors

\*Eighth, optimistic scenarios of a structured and well governed New World Order centred in strong institutions of global governance, the rule of law and functioning international regimes

\*Ninth, a world of economical and culturally integrated and distinct regions with interregional dialogues and agreements

\*Tenth, more recent debates on a non-polar world characterised by numerous centres of meaningful power. Scholars such as Haas defined such order to include six major powers (like the multi-polar image): China, the EU, India, Japan, Russia and the US. Different from a simple multi-polar image in Haas' vision there is a second significant layer of regional powers to include Brazil, Argentina, Chile, Mexico, Venezuela, Nigeria, South Africa, Egypt, Iran, Israel, Saudi-Arabia, Australia, Indonesia and South Korea. Most importantly "meaningful power centres" include the major international organisations (UN, IMF, World Bank, ASEAN, African Union, OPEC, Shanghai co-operations etc.) and even "states within states" (California etc.) and global cities (New York, London, Sao Paolo, Tokyo, Shanghai). They also include the largest world energy, manufacturing and financial firms. Each of these power centres, states in particular, are then constantly challenged from above (International Organizations), from below (militias such as Hamas, Taliban, Hezbollah) and from the side (NGOs and corporations). Churches, networks of political parties, global media, drug cartels and global charities all play an independent additional and powerful part. (Haas: 2008).

Most significant, the comprehensive vision of a "non-polar world" does not consider any European individual country, neither Britain or France nor Germany as an independent and "meaningful centre of power". It is one vision only, but it certainly reflects a much broader view held about Europe outside Europe. Hence, it is important that no country in Europe, different from some other continent is seen as significant if not represented by a common European force represented and held together by the EURO as a currency. This view is held by a majority of politicians and policy-makers in Germany.

However, there is one further complication. France, Germany and Britain, while acknowledging the rapid shifts in global order, still seem to be trapped in traditional Euro-centric perspectives. They see themselves and the United States as the centres of gravity in world politics, possibly even enhanced after EU enlargement.

In contrast, most rising players perceive Europe as an area of significant decline. The old message of Europe as a normative leader for other regions no longer sells. The current EURO crisis is often seen as the symbol of the "final retirement of Europe as a world

leader. “ In fact non-European, non-Western voices, among them the ever present Kishore Mahbubani and Fareed Zakaria have managed to influence even main stream debates in the Euro-American world. The real impact of an ongoing “globalisation of global thought” is still to come as few western voices have already changed perspective.

David Slater, who is one example at least, calls for post-colonial geo-politics (Slater 2004) and argues that the three constitutive elements of western thinking have come under serious threat. These elements were: First, the Western belief that a very special and primary feature of its inner socio-economic, political, individual and cultural life justified a civilisational role vis-à-vis others. Second, it was based on the traditional conviction that this special culture was intrinsic to the Euro-American development and the result of a process of mutual self-affirmation which owed nothing to exchange and association with non-Western cultures. In fact, a sense of superiority flows from the self-referential framework expressed in the exclusive claim as being a driver of modernization and liberal development. The third element is the claim that the Western model, be it the American or European version, constitutes a universal step forward for the whole of humanity in all regions of the world. (Slater 2004)

Without going into detail, it is important that these three core assumptions are still implicit in much of the thinking of national adaptation strategies to shifts in world order in Germany, but also in France and Britain. It is not shared by other regional and rising powers and the Euro-crisis is indeed a potential and powerful turning point in ever growing “case against the West.

#### **4. Germany in Europe: From “Tamed Power to Blamed Power”? National Adaptation Strategy To Shifting Global Order**

2010 is also a wonderful opportunity to reflect about Germany’s foreign policy shifts, vis-à-vis Europe and beyond. 20 years after unification there is enough room for a solid analysis of the changing global outlook of Europe’s central power. During the Cold War, West Germany was a “Tamed Power “ (Peter Katzenstein), in the current crisis it is a “blamed and shamed power”. Let us go deeper into an analysis of the various shifts in foreign policy thinking since 1990.

Debates on the transformation of German foreign policy since 1990 have been the most substantial among the European powers. A fundamental rethink was no surprise as German unification required a comprehensive reflection about a future foreign policy. However, until recently the German debate has also been somewhat provincial: Europe’s central power engaged in an essentially European debate on European order and only recently developed a wider global perspective.

Despite new efforts, much more dialogue between the various German research communities would be essential for substantially influencing Berlin’s global outlook. The traditional foreign and security policy community still speaks too little to area studies scholars. Furthermore, compared with France and Britain, there is a much smaller pool of

experts for many world regions and regional powers. Last but not least, ministries as well as the chancellor's office are still organised around outdated rationales and still retains unit desks such as "East", "West", "Developing World" and "Global Questions" (Globale Fragen). The reform of German foreign policy and a wider global perspective are still steady work in progress. Limited global engagement and the occasional diplomatic blunder such as Development Minister's Dirk Niebel recent attack on Israeli foreign policy are just a few examples.

### *The German debate*

Since unification there have been several waves in the debate.. Broadly speaking, one can distinguish between at least three major phases: a "German period" (1990-1994), a "European period" (1995-2004) and, much more recently, a "globalising period" which is still ongoing. Immediately after unification, a lively public debate emerged over new directions of German foreign policy led by historians, journalists and political scientists. Back then intellectuals revisited the cold-war German foreign policy principles and suggested alterations.

### *Moving away from the Cold War "Tamed Power"*

During the cold war West-Germany regained respect through a firm policy of self-binding and integration into western institutions, mainly the EC and NATO. West-Germany steered a balanced and difficult course between five major poles and interests, i.e. between Washington (for security), Moscow (for détente), East-Berlin (for German-German relations), Paris/Brussels (for European Integration) and after 1973 New York (UN, global issues). Different from Britain and France, no global ambitions, enhanced national pride and open national interests were desired as a consequence of Germany's historical burden.

Multilateralism became the country's patriotism instead. West Germany's mind-set was modesty, her means money, her model multilateralism and her master plan mediation. Such previous assumptions were questioned in the first debate on German foreign policy. Thinkable alternatives included:

1. a deepened core Europe as the first priority
2. strengthening the wider west as the alternative to core Europe
3. giving priority to Mitteleuropa (East and central Europe)
4. pursuing a Moscow first strategy
5. developing global ambitions (Garton Ash: 1994)

According to Gunther Hellmann, five different schools of thought emerged during this period. They included

- a) "normalization-nationalists", a small and insignificant group arguing for the existence of distinct virtues of German culture and showing scepticism towards the wider western community

- b) “internationalists”, also a small group at that time, mainly within the Greens, the left-wing of the SPD and in the PDS, advocating global civil society and the end of nation states as reference points of global order
- c) “Moderate Eurosceptics”, also a small group who appreciated the achievements of European integration, but argued against ambitious plans for further deepening and comprehensive enlargement
- d) “Europeanists”, a large mainstream group who argued for deeper integration as the first and almost exclusive immediate priority
- e) “pragmatic multilateralists”, a large and dominant group who argued that Germany would benefit most from a policy of self-binding and multilateralism through many institutions without giving exclusive priority to one over the other

In practical politics, these theoretical options were not as clear cut as in theory. What developed in reality is a still ongoing adaptation and maturation of German foreign policy with different emphases in different phases after 1990. During the, what I call, “German period” between 1990 and roughly 1995 (the 1994 Constitutional Court decision on out-of-area deployment opened a new phase), the debate was very self-absorbed and failed to look much beyond Germany’s immediate European neighbourhood. Nevertheless, what Germany achieved back then and what still influences current debates were two features: firstly, the reaffirmation of the policy of voluntary self-binding and the commitment to multi-lateral decision making; secondly, Germany became the advocate for a special and privileged treatment for Moscow even if no serious politician in Germany would dare to pursue a full Moscow first strategy. As a result and true until today (even in 2008 Georgia crisis), Germany places high emphasis on an understanding with Russia. Long traditions of 19<sup>th</sup> and 20<sup>th</sup> century history with a sense of Russia belonging to Europe’s common destiny, cold war experiences in *Ostpolitik* as well as gratitude for Gorbachev’s approval of German unification still play an important ideational part in justifying this general direction.

Between 1995 and 2004, in what I would call the “European phase”, the “Europeanist” focus, i.e. the simultaneous deepening (introduction of the EURO, institutional reforms, Reform Treaty) and widening (EU enlargement) of Europe became the most important strategic imperative for Germany. “Europa als Schicksalsgemeinschaft” (Europe as a community of common destiny) was the overriding *Leitmotif* of the Kohl administration until 1998. This legacy remains a powerful ideational source for German thinking on dealing with rising powers. More so than in Britain and France, there is a deeply held conviction that Germany should engage with rising powers primarily within and through an ever stronger European Union.

Compared with Chancellor Helmut Kohl his successor Gerhard Schröder was much more of a pragmatic multilateralist, generally less guided by an inner strategic compass than by reactive foreign policy “ad-hocary”. However, during his reign the sharp winds of globalisation lifted up the previously provincial debate on Germany’s role in the world. The growing sense of declining economic competitiveness and the notion that an outdated economic and welfare state model was under threat from new economic powers, in Eastern Europe and worldwide, helped to move Germany into the current “global phase”

of foreign policy adaptation. Despite the recognition that Germany needed to shoulder larger global responsibilities, Angela Merkel is no true visionary either. She is, as was Schroeder also a pragmatist, who does not shy away from go-it-alone policies. I will later return to that theme.

Against a structurally conservative domestic electorate that largely fears economic globalisation and tends to object to “military adventures” and global ambitions, the country has nevertheless made significant progress towards meeting its enhanced global responsibilities. When engaging with rising powers and responding to the shifts in global order, Germany’s foreign policy consensus consists of the following elements which emerged after an almost 20 year debate:

First, Germany should stick to its path of multilateralism and institutional self-binding. Within the main institutions, i.e. the EU, UN, NATO, G8 (G20), OSCE and WTO, Germany should increase its structural power and try to shape policies within these bodies even more so than in the past. The ambition to assume a permanent seat in the UN Security Council follows such logic.

Second, there is the conviction that individual European countries can only remain powerful if working together in and through a united European Union. The dominant conceptual vision is that of a multi-polar world with the US, the EU (speaking with a more or less united voice), China and Russia as the principal great players, potentially widened by a politically more active Japan and by India. In the German view, these global super-players will then be surrounded by layers of integrated regions (with different and multiple regional hegemonies) as well as, so the hope, strong institutions of global governance.

Third, as a consequence, Germany promotes a united and common European foreign policy even more than France and certainly much more than Britain. However, the German strategy is two-fold: in addition to promoting European unity, Berlin also seeks privileged access and individualised strategies vis-à-vis at least the US, Russia and China. The transatlantic alliance remains the decisive anchor for all German global ambitions. In dealing with Russia and China “engagement rather than containment” and “change through engagement” (Steinmeier 2007) are the overriding principles.

Fourth, with regard to the other rising powers, the German government promotes institutionalisation through global governance structures. It supports further regional integration and enhanced co-operation through region-to-region dialogue. An expression of such strategy are, for example, the recent concept papers on “Europe and Asia” (CDU/CSU 2007) on “Europe and Latin America” (CDU/CSU 2008, Klaeden 2007). Region-to-region engagement has a strong economic component, but it should be supported by a dialogue over societal values. In particular the CDU/CSU believes that Europe needs to formulate and defend its core values within wider global governance structures.

All in all, German foreign policy adaptations have been the most significant, the most European and the least global among the three regional powers in Europe. However, an intensified debate on Germany's global engagement is likely to follow in the years ahead and rapid shifts can not be ruled out completely if the common European project would lose appeal and momentum in other parts of the continent.

## **5. Germany and the Greek Crisis: Explanations of the German Government's Position and Policies**

Before going into detail of Germany's policies in the current and most recent EURO crisis, one needs to analyse one structural feature that is at the heart of much of the controversy:

### **5.1. Franco-German alliance**

- The Franco-German axis has reached its low point in history. As a result, there is a real leadership crisis in Europe that is likely to last. The post-Lisbon environment has failed to provide the impetus that many had hoped for.

Let us look into the Franco-German relationship from a historical perspective.

The Franco-German-Tandem, even though facing a structural overhaul and many new challenges, is still very much influenced by the historical legacies and images of post-war history.

1. Reconciliation
2. Elysee-Treaty and the resulting special bilateral partnership
3. The engine for European Integration
4. The EURO as the binding force of Europe's central economic countries
5. Myth: Without Franco-German-Understanding "Everything is Nothing" in Europe

Ever since Merkel and Sarkozy came to power the previously stable Franco-German axis which was gradually strained during the Chirac-Schroeder period, had entered troubled waters.

The Schroeder Chancellorship marked a special period in Franco-German Relations. Relations were far less close and warm than in the Kohl era, even though the public image, shaped by the international context of the Iraq War, suggested a close Franco-German Accord. However, Schroeder was never francophil and his foreign policy followed short-term domestic agendas. What appeared to be a strong bond between Chirac and Schroeder in later years was held together by a "partnership of the weak".

There were different phases:

1999: The German EU presidency at beginning of Schroeder years

1999: Kosovo Campaign

2002/03: Iraq War

2001-02: Convention on Constitutional Treaty

2003-05: Referendum on Constitutional Treaty and the Issue of future EU Enlargement

Since 2005/07: Merkel and Sarkozy: European project and global financial crisis lead to sustained Franco-German tension (historical low)

Reasons:

1. Enlargement in Europe has changed the political dynamics within the EU forever. The Franco-German-Tandem has lost its unique centrality while remaining of crucial importance.
2. A new flexibility of decision-making with shifting ad-hoc coalitions and various forms of differentiated integration will characterise European policy-making in the future
3. Europe will be less French and less German but both France and Germany want to be more French and more German respectively
4. Leadership has to come from both countries though. The political elites in both countries continues to recognise that their nations would be best served if the tandem would benefit from renewed energy
5. Greek Financial Crisis is probably the biggest test for Franco-German relations for a long time to come

Independent from the shifting governments and personalities in Franco-German relations, the structural underpinnings of the axis is so strong that it is likely to remain a very special bilateral relationship for decades to come.

Merkel and Sarkozy operate in a different political climate than any leadership tandem before. The following features will be structural (independent from the Greek Crisis) and will play a crucial part for a long time to come:

1. The emotional glue between France and Germany is weakening
2. Sarkozy has strong nationalist tendencies
3. Sarkozy has suggested to coordinate European policies among the large six in Europe (Germany, France, United Kingdom, Italy, Spain and Poland) and not exclusively in the Franco-German accord
4. Sarkozy had envied Merkel's international standing
5. There are rival concepts on how to salvage the EU crisis, the institutional as well as the financial.
6. On the positive side: Merkel and Sarkozy have known and respected each other for a long time. Both are pragmatists and, on the whole, market-oriented internationalists
7. Both leaders object to a far reaching further enlargement of the EU and seem to agree on the concept of a privileged partnership for Turkey

8. Both leaders aim to improve transatlantic relations and have a more positive image of the United States than their respective predecessors
9. Both leaders lacked global experience when they took office, but they had assembled competent senior advisors in their teams

## **5.2.: Long-Term Trends and Underlying Challenges for Germany's Global Role**

The need to assume an ever increasing responsibility for European and international security and to provide the appropriate financial and military means began ever since unification in 1990. On the whole it has provided remarkable adjustments but Germany's ability to manage European and global challenges remain limited. There are some fundamental reasons:

1. The necessity to redefine and rethink traditional German positions vis-à-vis key strategic regions and power centres in the newly emerging global order. This concerns in particular the US and the transatlantic alliance, the Middle East, Russia, Japan, China and India. Thinking lacks behind necessities
2. The ups and downs in German-American relations over the last 10 years, with severe substantial and stylistic blunders on both sides, are well documented. The challenge for Berlin is to redefine the fundamentals of this core relationship at a time when Washington is shifting its geo-political priorities away from Europe.
3. With regard to the Middle East, Germany's unique challenge is to combine the historically motivated unconditional support for Israel with the for Germany vital principle of self-determination for Palestine. In addition, Berlin has to work on enhancing the European role in a multilateral framework for stability for the region, but lacks experience and clout in the region compared to, for example, France, Britain, Italy or Russia
4. Berlin's somewhat unique treatment of Russia is likely to increase tensions with its European, Western and Asian partners in the longer run and will have to be adjusted accordingly.
5. Conceptual thinking with regard to Japan, China and India is remarkable underdeveloped in German foreign policy circles. Germany remains very Euro-centric and even within Europe often lacks empathy for Southern and Eastern concerns. This is still a reflection of the previous concentration on the EU, NATO and the OSCE as the main relevant frameworks for German foreign policy-making. In particular knowledge of and strategic thinking about non-European regions remains unimpressive for a country of Germany's political weight and economic size

### **5.3. Leadership potential in an increasingly diverse Europe remains strong.**

Contrary to the shortcomings in larger strategic thinking, Germany's traditional leadership role in Europe remains strong. Although diminished through the addition of new members in the EU of 27, Berlin remains a conceptual front-runner in most EU affairs. On financial matters the current isolation is a new phenomenon.

There are tendencies in some political circles in Germany to advocate greater re-nationalisation of defined policy areas, but it is by no means the dominant feature in German strategic thinking about Europe.

### **5.4. The Changing Domestic Context**

German policies in Europe face the dilemma that, while the international demands on Germany are increasing, it becomes harder to get support from electoral support for more global engagement.

#### Priority for domestic politics

The German electorate is currently pre-occupied with the domestic reform agenda with regard to the labour market, pension, health and education. Unemployment is the overriding political issues and most other themes are perceived through the lens of perceived effects on unemployment. For a significant number of voters, globalisation remains a synonym for decreasing social standards and unemployment rather than for new global opportunities. On the whole, there is still underdeveloped awareness and understanding as to why Germany should play a larger globe role and take responsibilities that include military engagement and individual risks to soldiers.

#### Media-Driven "Adhocery"

As in many advanced industrial societies, media consumption in Germany has undergone a strong shift towards television and has created a media-driven democracy. Understanding of international complexities, less black and white than during the cold war, is decreasing through an event-driven and flashpoint coverage of crisis. Politicians, rather than sticking to an inner strategic compass, often re-act ad-hoc to domestic moods created by selective crisis reporting. This makes a coherent a foreign policy role more difficult than in some other countries with long-standing global policy traditions. The Greek-Crisis is the prime example where an irresponsible media campaign drove the political class.

#### The decline and lack of strategic leadership in Germany's political class

While the demands for Germany's global engagement are increasing, the international experiences and strategic expertise of the country's politicians is in fact declining. All major parties in the Bundestag have identified a need for young foreign policy experts. During the post-war period and the cold war period, most members of parliament had an awareness of strategic requirements through the experience of war and the constant threat of war with Germany at the heart of the East-West divide. Today, after 60 years of peace and prosperity political careers are more than ever made through local constituencies and -- in a federal system -- by acquiring political leadership through posts in city and Land

governments. One the whole, there is little opportunity for politicians to gain international experience prior to entering the Bundestag. However, with global order being fluid at the beginning of the 21<sup>st</sup> century, cosmopolitan political leadership is needed, but extremely difficult to recruit.

#### A temporary factor that influenced Merkel's policy: Regional Elections in North-Rhine Westphalia (NRW)

The first political test for the centre-right coalition since it came to power in the autumn of 2009 was a decisive domestic consideration. The government, however, misplayed its cards. Instead of boosting Merkel's coalition, the regional elections in North-Rhine-Westphalia in May 2010 led to a hung parliament in the state capital of Düsseldorf with the following results:

CDU: 34.6 %, 67 seats (2005: 44.9 %)  
SPD: 34.5 %, 67 seats (2005: 37.1 %)  
Greens: 12.1 %, 23 seats (2005: 6.2 %)  
FDP: 6.7 %, 13 seats (2005: 6.2 %)  
Linke: 5.6 %, 11 seats (2005: PDS/WASG 3.1 %)

The loss of the CDU/FDP majority in the regional elections in Germany's most populous state (18 million), North-Rhine-Westphalia, provides a severe setback for Chancellor Angela Merkel's government. The centre-right coalition now no longer holds a majority in the Bundesrat (second chamber) and needs cross-party co-operation on almost all major reform legislation. Merkel now faces the most difficult period of her chancellorship so far. This will affect German policy on Europe significantly.

## **6. Outlook: Scenarios for handling the Greek Crisis: Options for Today and Tomorrow**

Let us finally look at the Greek Crisis, Germany's concrete role and prospects for the future:

### **6.1. Background:**

The Euro zone started in 1999. Until recently, the EURO and the European Central Bank have served the European Union and its members well, even in the early period of the global financial crisis. The inflation rate in the first decade was close to 1.7 % and the EURO had a global reputation for a solid and stable currency. Nevertheless, the EURO might now be on the brink of collapse in 2010. This is hardly two years after the global banking crisis and only a year after the first global recession since the 1990s.

March 2010: Greek crisis which was emerging since the autumn of 2008 reaches a new high with the announcement of the new socialist government that the debt situation is far worse than previously estimated. The predicted annual budget deficit amounts to about 12 %. Germany refuses to provide European bail-outs and seeks solutions that would

include the IMF. France promotes a European solution and a more generous rescue fund. Uncertainty worsens the crisis.

May 2010: Agreement by the EU on an unprecedented 750 billion EURO rescue package for the EURO. There was a hasty agreement on a broad package that would provide guarantees for countries of the euro zone facing major problems with refinancing government debt. There would be a 750 billion

June 2010: EU summit on revision of growth and stability measures, G8 and G20 meetings

General attempts to tighten the rules on public deficits. There is still uncertainty about many details and Franco-German disagreements remain. At a meeting in Berlin about the future of the EURO-area

Autumn 2010: It is expected that a full review of the EU's economic and political tools for managing the crisis and for providing regulation and better financial governance will be completed. It is an open process where differences and diverging strategies will be very difficult to bridge.

### **6.1. The German Government and the Greek Crisis**

VERDICT: German and other European governments have so far mishandled the crisis. Prior to May 2010, there was totally insufficient leadership from Germany, France, and other countries. Also the Commission under Barroso showed much weakness.

The reasons were manifold as described above. Domestic politics, economic belief-systems, lack of leadership and miscalculation.

Provocation by Paul Krugman this week (June 2010): "Germany is the major risk factor for the EURO and there should be sanctions against Germany".

### **6.2: Competing scenarios for the future**

**A: Positive Scenario: Stabilization and return to solid growth and finances within 2-5 years**

**B: Muddle Through Scenario: Weak Euro, Weak Growth, Prolonged Debt but EURO remains intact**

**C: Crisis Scenario: Collapse of Euro and Major European Crisis**