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Charlemagne

Decision time

Germany continues to dither over how best to rescue the euro

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WORKING in the bombastic Nazi-era edifice in Berlin that once housed Hermann Göring's air ministry, then the headquarters of the Red Army and later much of East Germany's communist government, Wolfgang Schäuble knows more than most how Germany's democratic resurrection and reunification are bound up with European integration. But as the German finance minister wheels himself in to talk to the foreign media (he has been paralysed from the waist down since an assassination attempt in 1990), he cuts a lonely figure. A veteran of German unification, he is the leading pro-European in the cabinet. His instinctive response to the euro-zone crisis is more European integration. Germany is, after all, the euro's principal beneficiary. But his country is ever more sceptical of the European Union and the single currency. German Europhiles feel beleaguered.

Ministers are torn between promises "to do whatever it takes" to defend the euro and the hostility of their voters towards serial bail-outs. The result has been a succession of erratic incremental steps, forced by events and largely driven by tactics. Germany acted to avert the imminent financial collapse of several countries, but often late and never decisively enough to resolve the crisis once and for all. Instead, a year after the rescue of Greece, then of Ireland and now of Portugal, anxiety seems to be growing.

The EU, with power spread across institutions and countries, is ill-designed to act swiftly in a crisis. Germany has to provide leadership, if only because it has the deepest pockets. But it too often seems dysfunctional, partly because of its own decentralised system and partly because being Europe's creditor-in-chief is unpopular. These days Angela Merkel, the chancellor, may be treated in Brussels as an empress, but in Berlin she is just one of many warring nobles.

Take the latest upheaval. Somebody leaked news to *Der Spiegel*, a German news magazine, of a secret meeting of finance ministers in Luxembourg on May 6th to discuss Greece. That was accurate. But the claim that the country was threatening to leave the euro seems to have been wrong, though it caused yet another market convulsion. Jean-Claude Juncker, prime minister of Luxembourg and chair of the euro group of finance ministers, says there was no talk of restructuring Greece's public debt. But who can believe a man whose officials denied that the meeting was taking place, and who has spoken of the need for "secret, dark debates" in economic policy-making? Mr Juncker all but admitted that Greece could not pay its debts, saying it would need "a further adjustment programme". In Berlin this week Mr Schäuble kept mum about this, to avoid feeding "speculation", though his ministry is now looking at debt restructuring.

In truth it is not speculation but indecision and timidity that are at fault. Germany has made expensive loans to troubled countries, but does not like big fiscal transfers. It said the EU's big bail-out fund would be temporary, but it is being made permanent. Money for rescues is being raised with joint guarantees, yet Germany will not accept common Eurobonds. It has resisted immediately imposing losses on bondholders, yet insists they must share the pain from 2013 and has started to discuss lengthening debt maturities despite fierce resistance from the European Central Bank. It denounces financiers for causing the crisis, but has backed arguments against Ireland burning its bank creditors.

More than once, Mrs Merkel has countermanded Mr Schäuble. She prevaricated over who should succeed Jean-Claude Trichet as ECB president, finally backing Italy's Mario Draghi long after he had won over other leaders and, indeed, Mr Schäuble. Even *Bild*, Germany's leading tabloid, elevated Mr Draghi as an honorary German, depicting him with a Prussian helmet. "What does Germany want?" asks an exasperated Eurocrat in Brussels. Plainly, Germany does not know. To one Berlin economist, "Germany is like an unguided missile over Europe."

Time is not on my side

None of this is to say that Germany is the main cause of the euro's crisis. As much or more blame lies with those that spent irresponsibly, failed to reform in good times and were blind to property bubbles. Yet German hesitation has hindered the search for a solution. Its strategy, in so far as there is one, has followed a twin track. One has been to push others to adopt Germanic rigour through tougher fiscal rules and a "fitness programme" to make economies more competitive. This is meant to prevent a future crisis. As for today's ills, caused by the sins of the past, the answer has often been just to play for time: to try to repair Europe's banks, insist on deficits being trimmed and hope that growth makes the problem more manageable. EU finance ministers want to postpone the reckoning again, perhaps with new loans for Greece, stretching out repayments, reducing the interest rate or even considering a modest voluntary reprofiling of current debt.

But time has a cost. Austerity in troubled countries is deepening recession. Markets doubt that Greece and others can repay their debts even with much more time and fresh loans. And the crisis is tearing at Europe's political fabric. Voters in creditor countries resent endless bail-outs; in debtor countries they resent endless belt-tightening. Even Berlin may be realising that it is time for hard choices. That could mean restructuring debts, imposing losses on creditors and helping banks in danger of collapse. Or it could mean restructuring the euro area through common Eurobonds and fiscal transfers. One option crystallises losses now and raises fears of financial turmoil; the other means an open-ended commitment that risks political rejection. Neither is easy. But prolonged indecision could lead to something even more painful: break-up of the euro, which to pro-European Germans would be a repudiation of post-war history.

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