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The European Sovereign Debt Crisis

Is Germany to Blame?

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Abstract

Only a decade ago, slow growth and high unemployment plagued Germany, but the "sick man of Europe" has now moved to outperform the Eurozone average growth since the second quarter of 2010. This confirms Germany's recovery and its status as the growth engine of the continent. This surely is a success story. While Germany (also Austria and the Netherlands) is prospering, the peripheral countries in the Eurozone are confronted with a severe sovereign debt crisis. Starting in Greece, it soon spread to countries such as Ireland, Portugal, and Spain. In the course of the debate, Germany was blamed for the imbalances in Europe. In short, German export performance and the sustained pressure for moderate wage increases have provided German exporters with the competitive advantage to dominate trade and capital flows within the Eurozone. Thus, Germany is seen as the main beneficiary of the EURO. This argument, however, is vehemently disputed within Germany. Many economists and political leaders reject this argument and point to the flagrant lack of fiscal discipline in many of the peripheral countries. Some prominent economists, such as Hans-Werner Sinn, even disputes that Germany was the main beneficiary of the Eurozone. The paper analyzes the two sides of the controversy, and asks whether we are witnessing a more inward-looking and Euroskeptic Germany. These issues will be analyzed by first focusing on the role of Germany in resolving the sovereign debt crisis in Greece, and the European Union negotiations for a permanent rescue mechanism. We conclude by discussing some possible explanations for Germany's more assertive and more Euroskeptic position during these negotiations.

Keywords

sovereign debt crisis; German wage policies; macroeconomic imbalances; Euro current accounts; rescue packages; fiscal discipline; Permanent Stability Mechanism

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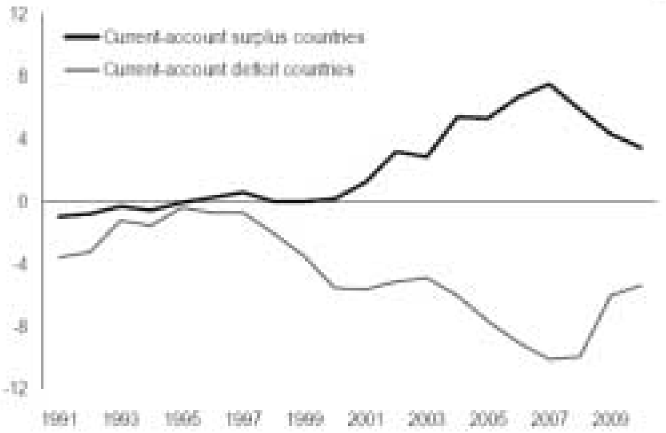
The Argument

Slow growth and high unemployment plagued Germany a decade ago, but the "sick man of Europe"[1] has now begun to outperform the average Eurozone growth since the second quarter of 2010. Official figures show that Germany is experiencing the highest economic growth rate since unification in 1990 of 3.6 percent for 2010,[2] confirming the country's recovery and regained status as the growth engine of the continent. This surely is a success story. Yet, simultaneously, there is another much less successful story–the sovereign debt crisis of southern European countries has exposed a deep rift among the seventeen countries in the Eurozone. The instability was so severe that many pundits proclaimed the end of the EURO. It started with the Greek sovereign debt crisis and the imbalances in the Eurozone for which Germany was blamed.

Many political economists, well-known economic journalists such as Martin Wolf and Wolfgang Münchau from the *Financial Times*, and in March 2010 also the French Finance Minister Christine Lagarde have argued that the asymmetries in the Eurozone are the outcome of German wage moderation, which have driven down unit-labor costs relative to Germany's competitors. From this perspective, German export performance and the sustained pressure on nominal wage increases have provided German exporters with the competitive advantage to dominate trade and capital flows within the Eurozone (see Figure 3 below).[3] Germany is blamed not only for the problems within the Eurozone, but with China, also for the worldwide imbalances (see Figure 2). According to this argument, Germany continuously achieved current account surpluses[4] in the Eurozone that necessarily are financed by current account deficits in the peripheral countries (see Figure 1). As a result, Germany is seen as the main beneficiary of the Eurozone.

Peripheral countries, so assert the critics of Germany, not only entered the Eurozone at an uncompetitive exchange rate, but Germany's wage moderation also was equal to a real devaluation against other members in the Eurozone, since its unit wage costs rose at a slower rate of any European Union (EU) countries (see Figure 3). Thus, the "beggar-thy-neighbor" policy pursued by Germany had an asymmetric impact on the members of the Economic and Monetary Union (EMU). According to this argument, Germany is most responsible for the emergence of a two-speed Europe with Germany (as well as Austria and the Netherlands) as the healthy core and much of southern Europe as the troubled periphery. This narrative has not gone without challenge. In summer 2010, the

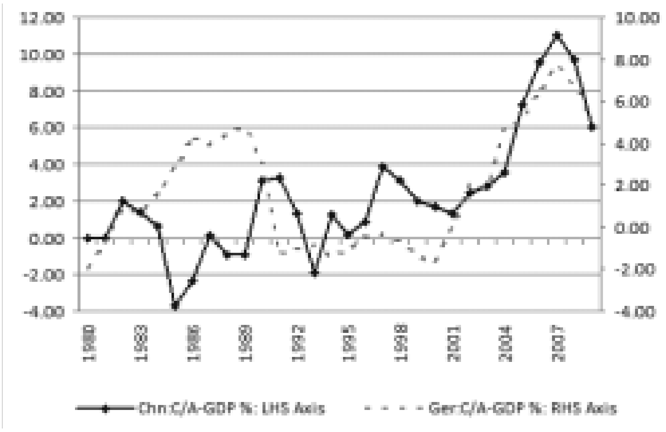
Figure 1: Current Account Surplus and Deficit Countries (1991-2010) in percent of GDP



Surplus countries include Germany, Luxembourg, the Netherlands, Austria and Finland. Deficit countries include Ireland, Greece, Spain, Cyprus, and Portugal. Data for 2010 are based on the Commission's autumn forecast.

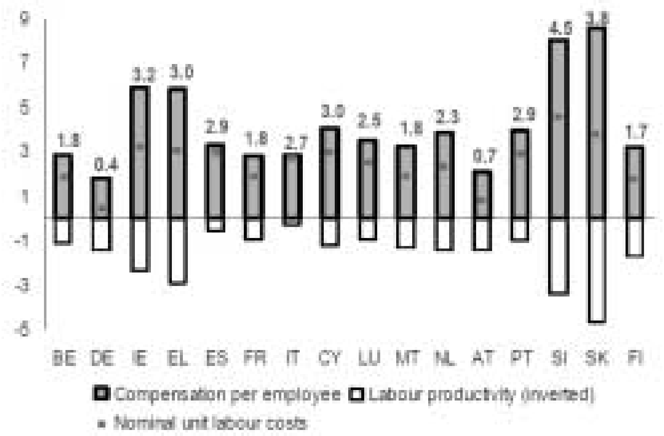
Source: European Commission (see note 27), 9.

Figure 2: Current Account Surplus in Germany and China



Source: Joshua Aizenman and Sengupta Rajeswari "Global imbalances: Is Germany the new China," (2010); available at www.voxeu.org.

Figure 3: Differences in Unit Wage Costs, Compensation per Employee, Labor Productivity and Nominal Unit Labor Costs (1999-2008) (average annual changes in percent)



Source: European Commission (see note 30), 25.

German economist Hans-Werner Sinn, president of the prestigious Ifo-Institute for Economic Research in Munich, disputed the claim that Germany was the main beneficiary of the Eurozone. Large capital outflows, according to Sinn, deprived Germany of necessary investments and led to the lowest growth rates–second only to Italy–between 1995 and 2005.[5] This position was quickly challenged by Martin Wolf who argued that the EURO was not responsible for low levels of investment, and the capital outflows did not really benefit the peripheral countries, since it mostly led to an unsustainable consumption and construction boom. Rather, low German growth rates were the result of weak domestic demand, structural rigidities, and globalization.[6]

Who is right? Are German firms stubbornly holding down real wages to ensure an export boom and in so doing, splitting the Eurozone into countries with current account surpluses (Germany, Austria, and the Netherlands) and the rest into current account deficit countries?[7] Or, are German wages too high, accounting for the export boom and low growth rates during 1995-2009? At first glance, these two diverging positions are based on a dispute within different economic schools (Keynesian versus Ordoliberals).[8] Either side can bring forth sufficient statistical and theoretical ammunition to challenge the positions of the opposite side. The arguments of both sides and some of the evidence will be examined below.

Nevertheless, the economic argument only tells part of the story. Whether Germany benefits from the EURO is also a deeply political question illuminating the future role and commitment of Germany in the Eurozone. The slow German rescue response to the peripheral countries, in particular Greece, raises at least some questions regarding whether Germany is pursuing more national prerogatives and a reduced European strategy. After all, a strong European Union and Eurozone depend especially on the commitment of Germany and the Berlin-Paris axis. The argument that "Germany is not benefiting from the EURO" and Angela Merkel's mixed signals during the negotiations of a rescue package for the peripheral countries suggests that the Eurozone could be confronted with a less committed Germany and thus even a possible collapse of the Eurozone. Conversely, the crisis could provide an opportunity to create a more coordinated and politically integrated Union. Will we see a revival of the European idea[9] or a strengthening of the Euroskeptics? Both directions will depend to a large extent on Germany.

The remainder of this article proceeds as follows. We start with a quick overview of the sovereign debt crisis of the peripheral Eurozone countries and discuss some of the reasons for the hesitant response of Germany to come up with a rescue package for Greece and other crisis countries. The next section raises the question whether "Germany is to blame" for EU imbalances, the sovereign debt crisis, and its aftermath. Section 4 takes up Hans-Werner Sinn's most recent argument that Germany has not benefited from its membership in the EURO. Finally, we analyze the role of Germany in negotiating a permanent Eurozone rescue fund for debtor countries, and offer some explanations as to why the German chancellor–virtually isolated among the Eurozone members–refused to compromise with other members in stabilizing the EURO. Germany's more nationalist stance leaves much room for speculation about the future of the Eurozone and Germany's role in it.

The Sovereign Debt Crisis and Germany's Muted Response

Greek sovereign debt was the triggering event for the European sovereign debt crisis, which reached its climax in May 2010. Starting in February 2010, the instabilities in the public finances of the weakest economies in the (southern) Eurozone periphery notably Portugal, Spain, Greece, and Ireland made headlines about the need for possible bailouts (see Table 1). What were the causes of such a rapid acceleration of the sovereign debt crisis? As Paul De Grauwe correctly argues, the sovereign debt crisis of the European peripheral countries has to be understood in the context of the financial and credit crisis of 2007-2009. Initially, the fiscal deficit was rising in all EU countries. This was due to: 1) the rescue operations of the national banking systems and the stabilization funds; 2) the stimulus packages to prevent a further meltdown of the type experienced in the Great Depression of the 1930s; and 3) the extensive tax revenue losses due to the meltdown of the real economy, the rise of unemployment, and decline in incomes.[10]

Table 1: General Government Gross Financial Liabilities as a Percentage of GDP and Government Net Borrowing as a Percentage of GDP

	General Government Debt (% of GDP)		**Budget Balance (% of GDP)**
	2010	**2011**	**2010**
Austria	75.9	78.0	4.4
Belgium	102.5	104.3	4.9
Cyprus	~	~	~
Finland	58.4	62.7	3.3
France	92.4	97.1	7.4
Germany	79.9	81.3	4.0
Greece	129.2	136.8	8.3
Ireland	104.9	112.7	32.3
Italy	131.3	132.7	5.0
Luxembourg	21.0	26.0	2.2
Malta	~	~	~
Netherlands	74.6	77.6	5.8
Portugal	92.9	98.7	7.3
Slovakia	47.1	51.1	8.0
Slovenia	49.9	54.8	5.7
Spain	72.2	78.2	9.2
UK	81.3	88.6	9.6
Euro area (14 countries)	91.6	94.8	6.3

Source: OECD Economic Outlook No. 88, OECD Economic Outlook: Statistics and Projections (Database), OECD Library, 2011. Accessed online at: http://dx.doi.org/10.1787/gov-debt-table-2011-1-en

Yet some periphery countries experienced boom-bust cycles and credit booms that were not due to the Eurozone imbalances. In fact, part of the periphery countries' sovereign debt meltdown was the result of the institutional mechanisms surrounding the EURO. The Maastricht Treaty and the Stability and Growth Pact forced members of the Eurozone to enforce fiscal discipline to ensure budget deficits of no higher than 3 percent of GDP, and a debt-to-GDP ratio no higher than 60 percent of GDP. In particular, Greece was the problem patient, since the crisis originated as a result of high public debts which the Stability and Growth Pact was supposed to prevent in the first place.

The crises of Spain, Portugal and Ireland are of a different nature, since they are mostly due to private debts, particularly household debt.[11] Even if the debt is private, however, it becomes public through the rescue operation, which drives up the sovereign debt.[12] The public debt as a percentage of GDP is expected to rise significantly in both the EU, and in the Eurozone (see Table 1). Many peripheral countries have a debt-to-GDP ratio above 110 percent for 2010 –for example Greece with close to 130 percent, Italy and Belgium with 131 percent and 102.5 percent respectively, and the debt forecasts for 2011 are even higher. The primary fiscal deficit–excluding interest payments on past debt–is 32.3 percent in Ireland, Spain (9.2 percent), the UK (9.6 percent), and Portugal (7.3 percent). It is important to note that this primary deficit will generate debt burdens in the future. As Figure 1 illustrates, many of those countries show also substantial current account deficits.

The crisis was finally stabilized with a rescue package in May 2010 after months of uncoordinated, fragmented, and acrimonious recriminations against Greece and its culture of fiscal profligacy and Germany's resistance to turn the Eurozone from a monetary into a transfer union.[13] Eventually, a safety net of EURO 750 billion was put together by the European Union and the International Monetary Fund. This rescue plan consists of: 1) EURO 440 billion Eurozone-backed loan guarantees for stricken Eurozone members raised by a newly created European Financial Stability Facility (EFSF);[14] 2) EURO 60 billion European Union balance of payment facility to raise debt by the European Commission using the EU budget as collateral; 3) EURO 250 billion loans from the International Monetary Fund; 4) European Central Bank (ECB) action to intervene in public and private debt markets, as well as additional measures to boost Eurozone bank liquidity.[15] Germany passed an emergency law to permit Berlin to lend EURO 22.4 billion over three years as part of the Eurozone rescue plan for the Greek economy. This resulted in a number of formal complaints to the German Constitutional Court arguing that the rescue plan breaks the "no bail-out clause" of the European treaties, the centrality of which has been upheld previously by that court.[16]

The role of Germany in this rescue operation has been puzzling. In the domestic arena, Merkel is mostly hailed as representing the norms of a frugal "Swabian Housewife" (*Schwäbische Hausfrau*) who knows how to live within her means. With the support of most of the public behind it,[17] the

German government argues that its policies have made production more competitive, rationalized labor markets, and modernized the social welfare system by continuing with the Agenda 2010 reforms of the Red-Green government (1998-2005), as well as making every attempt to balance the budget up until the financial crisis.[18] Instead of reaping the benefits for these, quite often, painful efforts over the last decade, German taxpayers are now supposed to bail out the countries with lax fiscal policies that irresponsibly relied on low interest rates to create an unsustainable consumption and real estate boom in their respective countries. Indeed, looking back to the pre-EURO period, Germans noted that borrowing on the capital markets with the Greek Drachma was expensive. Greece had to pay an average 8 percent interest rate in 1998, but starting with their membership in the Eurozone they could borrow money as cheaply as Berlin and Paris and even cheaper in terms of the real interest rate, since the inflation rate was higher than in Germany.[19]

Given these domestic sentiments, it is not surprising that Merkel declared in a parliamentary debate on the rescue package for Greece that it should only be granted as an *ultima ratio*.[20] The *Handelsblatt* asked rhetorically "Is Merkel going to win the Greece-Poker?"[21] In fact, she did. Despite the strong opposition of French President Nicolas Sarkozy and the ECB president Jean-Claude Trichet against the involvement of the International Monetary Fund in the rescue package operation, Merkel was able to persuade top EU decision makers to support her course. In the end, the rescue package agreed upon in March 2010 was a Franco-German deal presented to the fourteen other members of the Eurozone. It had the hand-writing of Angela Merkel and her role as guardian of monetary stability. Sarkozy could claim partial victory in gaining support for embarking on "better economic governance" in the Eurozone.

More critical domestic and international voices argued that Merkel's hesitant intervention between February and May 2010 actually made the rescue package more expensive since the uncertainties in the Eurozone markets drove the credit default swaps and yields on government securities to ever greater heights.[22] Others speculated that her hesitancy had to do with party politics, in particular that she did not want to confront voters with the prospect of bailing out Greece before a critical Land election in North Rhine Westphalia on 9 May 2010. Despite the chancellor's reluctance to confront the voters with the rescue plan, the Christian Democratic Party lost by a resounding 10 percent.[23] Again others pointed to the constraints of the Constitutional Court in Germany, which previously had set strict conditions in its judgment on the Lisbon Treaty, and on the Maastricht treaty upholding the stability of the EURO currency as the ultimate priority for the Eurozone, and stipulated that the German legislators must be more closely consulted on EU legislation.[24] The Lisbon Treaty does not provide a mechanism for countries to default, and there is no mechanism for bail-outs either by the European Union, other member states, or the ECB (Article 123 and 125 of the Lisbon Treaty). Nevertheless, Article 122 (2) may be invoked to assist a member state that is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control. By declaring the Greek debt crisis a systemic crisis that could endanger the entire Eurozone, Germany agreed to invoke this treaty provision and argued that this would not violate the spirit of the no bail-out clause.[25] Surely, the threat of the powerful German Constitutional Court may have limited Merkel's maneuverability, but it cannot detract from a Germany that has become more inward-looking and pursuing more closely its national interests– a point to which we return in the final part of this paper.[26]

Is Germany to Blame for the Sovereign Debt Crisis in the Eurozone?

Many Keynesian economists, some Anglo-Saxon economic journalists (such as Nobel Laureate Paul Krugman publishing in the *New York Times*), and recently prominent European leaders have started to question the role of Germany in the sovereign debt crisis. The argument goes as follows. Germany's role as the second largest exporter has produced large current account surpluses through their competitive trade mostly with countries in the EU. In 2009, the German current account surplus fell to around 5.5 percent of GDP from a peak of 8 percent in 2007.[27] In real monetary terms, the German current account surplus was EURO 185 billion in 2007 (with Austria and the Netherlands it reached EURO 244 billion), while the rest of the EURO countries experienced a current account deficit reaching EURO 280 billion in 2008.[28] The accumulation of current account surpluses is the other side of current account deficits in such countries as Greece, Portugal, Ireland, and Spain. In other words, countries with current account surpluses need countries with current account deficits. This is particularly true in the Eurozone where there is no mechanism for tax and transfer policies to provide for regional equalization and stability as is the case in federal countries like the U.S. Since the Eurozone is a confederation of independent states, one member state's current account surplus has to be compensated for by a deficit run by another country. Thus, the Eurozone could not function if all members tried to emulate Germany. The fact that the German current account surplus is mirrored by a current account deficit in the peripheral countries is shown in Figure 1.

Despite the initial expectation that EMU would lead to economic convergence, divergence has been the rule in regard to economic growth rates and current accounts. Since the introduction of the EURO, current account differences have increased sharply, reaching an all-time high in 2007.[29] Two explanations account for these cross-border divergences. One is that countries with relative strong domestic demand tend to import more and thus depress the current account and vice versa. The other explanation points to differences in export performance and therefore price competitiveness.[30] Critics of Germany's economic policies have cited both insufficient domestic demand and price competitiveness as causes for the macroeconomic imbalances that weakened the position of the (southern) peripheral countries. Germany's export volume grew between 1996 and 2008 twice as fast as that of other members in the Eurozone, while the domestic demand of German private households declined 1.5 percent per year against the rest of the Eurozone members.[31]

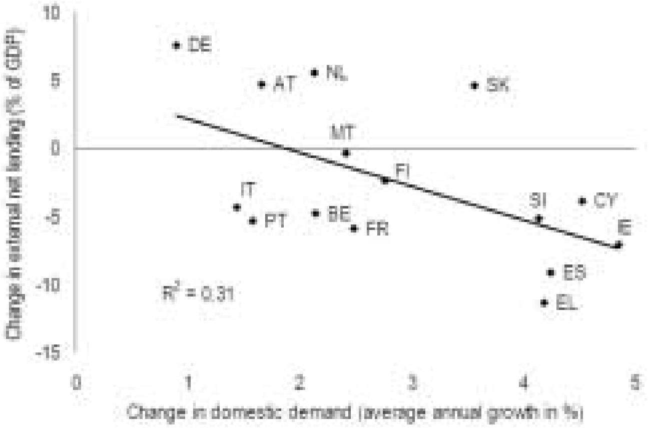
In an unusually stern warning, France's finance minister, Christine Lagarde, intervened in this debate and challenged Berlin to boost internal demand to help deficit countries to become more competitive and thus reduce their current account and public deficits. Lagarde was quoted as saying: "I'm not sure it is a sustainable model for … the whole of the Eurozone. We need better convergence."[32] The fundamental criticism against Germany had to do with the way it achieved its much contested export boom and concomitant current account surpluses. The culprit was seen in Germany`s labor market policy. According to this argument, German firms use wage moderation to improve the competitiveness of the economy. Particularly, the so-called Agenda 2010 neoliberal reforms enacted during the tenure of Social Democratic Chancellor Gerhard Schröder focused on reducing non-wage labor costs, making labor markets more flexible, and stressing innovation–all of which made fiscal consolidation possible and also raised domestic savings.[33] With domestic savings rising faster than investment, current account surpluses increase.

The German labor force was under heavy pressure resulting from the high rate of unemployment in East Germany. Labor income[34] moved at an almost identical pace to productivity, while in peripheral countries nominal labor costs rose faster than productivity, with Greece in the lead. As a result, peripheral countries had been losing competitiveness relative to Germany and showed large current account deficits.[35] The low wage growth strategy of Germany starting in the 1990s until 2009 is thus in line with rising current account surpluses, and has been more significant relative to EURO-area trade partners than to the larger EU member states.[36]

As a result, according to the critics of German policy, peripheral countries face an uneven playing field in the Eurozone. These countries joined EMU at generally low promised inflation rates, but this did not materialize for them. The higher inflation rate produced low real interest rates and allowed for heavy borrowing. On the other hand, the stagnant unit labor costs in Germany have meant in reality a change in the effective exchange rate–given relative price levels in Europe–favoring German exports. Many German observers, in particular trade unions, have pointed out that wages did not rise in line with productivity and the inflation rate.[37]

Is German wage policy since the 1990s to blame for this trend? Though at first it seems that Germany had obtained a competitive advantage in unit wage costs, there were two different types of boom-bust cycles developing in Europe: one in Germany and Austria for example, with low wage costs, rising export surpluses, capital exports (as the other side of the coin of an export surplus), and low consumption growth; and another boom-bust cycle for peripheral countries (such as Portugal, Spain, Greece, and to a degree Italy) where wages rose faster than productivity and a visible consumption boom–partly based on borrowing–showed up in current account deficits (see Figure 4).

Figure 4: Change of Domestic Consumption and Change in External Balance, 1998-2008



Source: European Commission (see note 30), 27.

A Contrasting View: Germany Does not Benefit from the EURO

As mentioned above, Hans-Werner Sinn disputes that low wages have given Germany a competitive advantage relative to other trading partners. He also challenges critics who assert that the poor performance of the domestic sector results from a lack of domestic demand and could be overcome through higher deficit spending. In his earlier writings, in which he argued that Germany was turning into a bazaar economy,[38] he concluded that the export boom and weak domestic growth are two sides of the same coin, and were the result of labor market rigidities. This is, of course, exactly the opposite argument cited by the many economists who blame Germany for the macroeconomic asymmetries in the Eurozone. Sinn looks at average hourly wages and confirms Germany's leading role in Europe on this variable. Low-wage competition from Eastern European countries and Asia, and Germany's relatively high wage costs[39] have meant that products are prefabricated abroad and re-imported for final assembly in Germany. Thus, instead of "made in Germany," it is more appropriate to talk about "designed, assembled and sold in Germany."[40] According to this logic, Germany is turning into a bazaar economy that supplies the world with high-value products, but the value of these goods is no longer produced in Germany. Goods are thus mainly channeled through Germany relative to the valued added.[41]

Thus, we face two contradictory arguments: 1) German unit labor costs are too low relative to countries such as Greece, Spain, Ireland, Portugal, Italy, and even France, and that this has led to a devaluation in real terms making German products more competitive in the Eurozone, producing an export surplus; and 2) Sinn's argument that the high wage costs have led to a pathological export boom from which the German economy does not benefit. It is true that Germany has been the global export champion until China achieved the leading place in 2010 (both exhibiting strong export surpluses–see Figure 2). Critics forget, however, that regardless of whether the Deutsche Mark or the EURO appreciated, German exports are internationally competitive. This has been demonstrated recently given that the appreciation of the EURO between 2002 and the beginning of 2008 did not reduce German exports, while it did for France and Italy. In fact, German exports rose substantially between 2004 and 2008.[42] Stephan Danninger and Fred Joutz conclude their analysis by emphasizing that the dominant factor explaining Germany's increase in market share was trade with fast-growing countries such as China and the oil-exporting states. They did not find significant support for either the wage moderation argument (changes in relative prices measured by the real effective exchange rate) or for the "bazaar" that Sinn has highlighted.[43] Thus, neither the Keynesian argument that Germany is holding down wages and that this equals a real devaluation against other members in the Eurozone, nor Hans-Werner Sinn's argument that wages are too high, is persuasive.

In light of the fact that Germany's Eurozone partners absorb about 40 percent of its exports, it was surprising that Sinn maintains in a recent paper that Germany has not benefited from the Eurozone.[44] Martin Wolf, in a quick and strong response in the *Financial Times* counters this narrative by insisting that Germany is in fact the "biggest gainer from the creation of the Eurozone."[45] Sinn argues "that the EURO has shifted Europe's growth forces from the center to the periphery. It has not been particularly beneficial for Germany."[46] In contrast to Sinn's previous argument focusing on a trade model of factor price convergence, he now focuses on finance and the capital markets to argue that Germany has not benefited from the EURO despite the trade surpluses. The reason for this is that a trade surplus is essentially the same as a capital export, and a country's capital exports help other countries. Because the German current account turned into a surplus, Germany experienced a huge net outflow of capital. The outflow of capital was only possible because the EURO created a common European capital market leveling the previous divergences in nominal interest rates through interest rate convergence. Hence, capital exports for Germany meant capital imports for the peripheral countries and in fact created a boom in some of their sectors (for example in the Spanish construction sector). Prior to the EURO, the interest spreads reflected different national inflation rates and possible expectations about currency devaluations. With the introduction of the EURO, the threats of devaluation disappeared and, as a result, interest rates moved down and converged.[47]

The outflow of capital, a result of the common European capital market, boosted "Eurozone output, increased national income and resulted in an employment boom that benefited the bulk of the population, while it reduced German GDP and hurt most of the German people."[48] The peripheral countries including Greece, Portugal, and Ireland experienced a demand-driven boom, with a current account deficit financed by cheap foreign credit, creating real economic growth as a result of the construction boom. While these countries witnessed a period of rapid growth, Germany had the lowest growth rate of all EU countries from 1995 to 2009. It grew only by about 16 percent in fourteen years, whereas Ireland grew by 108 percent, Greece by 58 percent and Spain by 50 percent. Moreover, Germany fell from third to tenth place in terms of GDP per capita in the period

1995-2009, while Ireland surpassed Germany on this measure.[49] The weak growth rate of Germany, according to Sinn, is the result of the low net investment rate as a percentage of net domestic product. Once again, this is due to Germany exporting its savings instead of using it as loans for domestic investment.[50] In 2008, Germany exported 60 percent of its savings while net investment amounted to only 40 percent. Sinn does concede that Germany improved its price competitiveness by having a lower inflation rate and a lower wage increase than other countries, but real devaluation was not as much of a strength as the critics have made it out to be, "but an implication of Germany's internal weakness resulting from its capital exports that helped finance the boom in other EURO countries."[51] Overall, one can say that Sinn's second argument captures some important dynamics in the Eurozone, which has to do with the lack of macroeconomic coordination at the EU-level. We turn now to the question of whether Germany has become more Euroskeptic after German unification.

Germany's Euro-skeptic Role in Stabilizing the Eurozone

German Euro-skepticism was again visible in the latest round of negotiations regarding a rescue package for Ireland in the amount of EURO 85 billion in November 2010 over a period of three years, as well as in the subsequent negotiations to impose a permanent sovereign debt resolution mechanism to safeguard the financial stability of the EURO.[52] Merkel's main message was that "nobody would be left alone, nobody will be abandoned,"[53] but only under strict conditions. These included strengthening the Stability and Growth Pact by enforcing fiscal discipline, introducing a permanent crisis mechanism with stringent conditions, involving private investors after 2013 in the event of a sovereign debt crisis, and rejecting the idea of Eurobonds suggested by Jean-Claude Juncker and Giulio Tremonti. Merkel argued instead for more competition among the member states to strengthen the EURO.[54]

Germany's insistence on fiscal discipline in these negotiations, and in particular Merkel's unequivocal rejection of the Luxembourg-Italian proposal for jointly guaranteed Eurobonds to help finance the indebted countries within the Eurozone led to angry attacks against Germany. Jean-Claude Juncker declared in a *Die Zeit* interview that Germany "thinks a bit simple, is un-european in how it handles business at the European level, and designates certain discussions as taboo-zones."[55] This was not the only criticism. Merkel was heavily chastised for her untimely demand that private bond holders should be involved in any losses incurred as a result of the sovereign debt crisis. These remarks were seen as frightening the bond markets, thus increasing the yields Ireland and other peripheral countries had to pay on the capital markets. As a result, the sovereign debt crisis worsened and in fact, Ireland had to be bailed-out by the Eurozone. Even her supporters such as the CEO of Deutsche Bank, Josef Ackermann, called Angela Merkel's remarks as "very unfortunate."[56] Similarly, Otmar Issing, former member of the European Central Banks's executive board, who supported the German government's position that bondholders must pay, did remark that "the announcement does not deserve a Nobel prize in communication."[57] In response to these recriminations leveled against Germany, Wolfgang Schäuble, the finance minister, argued that the financial markets do not understand the specific construction of the EURO: "We have a common monetary union, but we don't have a common fiscal policy. We need to convince the international public and international markets that this is a new form, very specific to meeting the demands of the 21st century."[58]

Finally, Germany was able to push its conception of a permanent mechanism through the European Council on 17 December 2010 to safeguard the financial stability of the Eurozone. The permanent safeguard was the result of horse-trading between France and Germany at Deauville in October. To punish those that lack fiscal discipline in the Eurozone, Germany suggested automatic punishment for the "sinners." France was against this automatism, but in return Paris agreed on amending the EU treaties to create a permanent mechanism involving private creditors. The treaty change was necessary so that a permanent crisis mechanism could be enacted. Under the leadership of Herman Van Rompuy, the European Council president, two essential elements were introduced:

First, a permanent liquidity facility, the European Stability Mechanism (ESM) will replace the European Financial Stability Facility put together during the Greek crisis in May 2010, which expires in 2013. This new ESM is intended to help indebted countries with severe cash flow problems. Merkel initially rejected raising the ceiling of EURO 440 billion of the previous fund (but finally agreed to raise the ceiling to Euro 500 billion), but insisted that the crisis mechanism could be triggered only as a last resort based "on a stringent program of economic and fiscal adjustment and on a rigorous sustainability analysis conducted by the European Commission and the IMF, in liaison with the ECB." Any assistance has to be decided unanimously by the Eurozone ministers.[59]

Second, standardized and identical collective action clauses (CACS) will be included for all new EURO area government bonds starting in June

2013. This means that if a government is unable to service the debt, it will allow all debt securities issued by a member state to be considered together in negotiations, including those who disagree with the majority vote. This is a legally binding change to the terms of payment and includes a standstill provision, extension of the maturity, interest-rate cut and/or haircut in the event that the debtor is unable to pay.[60]

To enact these changes, a paragraph was added to Article 136 of the Treaty on the Functioning of the European Union (TFEU), which stated:

> The member states whose currency is the EURO may establish a stability mechanism to be activated if indispensible to safeguard the stability of the EURO as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.[61]

In addition the European Council agreed that Article 122(2) of the TFEU will no longer be needed. The government leaders finalized the European Stability Mechanism (ESM) at the end of March 2011 making a managed default possible after 2013. The formal adoption will have to be ratified by the twenty-seven EU member states. The permanent crisis mechanism will come into force on 1 January 2013. Whether the ESM is the appropriate strategy to deal with future sovereign defaults, however, is in doubt before the stability mechanism has come into force. If German policymakers had intended to calm the bond markets in the Eurozone with the permanent crisis mechanism and stem the harsh criticism against the fiscal discipline imposed on EURO member states, they were wrong on both counts. The next patient after Greece and Ireland seems to be Portugal. Portuguese bond yields have reached over 8 percent in March 2011, and the ECB had intervened already in January to buy Portuguese bonds to prevent an even steeper sell-off.[62] Thus, the financial markets are not convinced that the indebted countries will be able to fund their public debt. Portugal will have to follow Greece and Ireland into using-bail-out loans. Nor have the critical voices against Germany subsided. Martin Wolf's headline in the *Financial Times*, *"The Eurozone needs more than discipline from Germany,"*[63] sums up the feelings of many economists and political leaders. This issue was taken up by the former Social Democratic foreign and finance ministers, Frank-Walter Steinmeier and Peer Steinbrück, who argued that Germany has become increasingly isolated within Europe by insisting on a "German Europe" rather than a more "European Germany."[64] Tough fiscal discipline with limited emergency funding at high interest rates, and draconian domestic adjustments is a cure that most believe will kill the patients. Surely the question is whether "voters in Ireland, Portugal, Greece or Spain tolerate a decade of austerity just to stay in a union with Germany."[65]

In response to these criticisms, Steinmeier and Steinbrück along with many other European leaders call for a combination of debt restructuring for holders of Greek, Irish, and Portuguese debt, debt guarantees for stable countries backed by an enhanced rescue fund so that countries such as Spain and Italy are not drawn into the downward spiral of bond speculation, and the limited introduction of European bonds to cover only a limited share of public debt. To release indebted countries from some of their debts and to empower European institutions to enforce tighter control over fiscal stability, emphasis has to be placed on minimum standards on wage and welfare policies.[66] There is a general belief that painful spending cuts and structural reforms alone will not resolve the debt problem of the peripheral countries.

A puzzle remains as to why Germany did not raise the issue that it was private debt turning into public debt, as was the case in Spain and Ireland, which was the Achilles heel of the sovereign debt crisis. Both Ireland and Spain had solid fiscal positions until the state had to bail out the banking system.[67] There is no mention of this by the government leaders in the European Council. Barry Eichengreen wondered whether Germany (with France and the UK) was unwilling (even obstinate) to talk about restructuring the debt (in this case Irish debt) since they feared the impact it would have on their own banking systems. He argued that under these circumstances, the appropriate answer would not have been to lend money to Ireland and other debtor nations, but to endow their own banks with sufficient capital so that they can withstand a debt restructuring.[68] Are Germans simply obstinate and too ignorant about economics and politics, or are there other explanations that provide some clues as to why Germany has turned into a Euroskeptic, playing the national card.

One explanation can be traced to different political economic cultures within Europe. From a German perspective, the origin of the crisis is due to the missing budget discipline in the (southern) periphery. In contrast, many of the affected countries point to international investors who worsened the crisis by speculating against the bond prices.[69] Yet, the majority of the German public, as exemplified in the print media, in particular the *Bild Zeitung*'s aggressive attacks against Greece with such headlines "Fear for our money" and "We are no longer the Paymaster of Europe" supports the argument that Greece has lived beyond its means while the Germans have pursued a culture of frugality and discipline. The role of culture and the norms and values which are associated with national histories and traditions also play a role in the interpretation of the U.S. subprime crisis. Steinbrück, as well as most German commentators, believe that the crisis had much to do with American "quasi-religious belief in the market" and the different risk and investment cultures across the Atlantic.[70] Cultural differences also played a role in explaining the sharp disagreements at the G20 Meeting in Toronto in June 2010 over the issue of debt reduction versus stimulus packages to ensure global recovery. On one side, we found Merkel representing the conservative Bundesbank monetary tradition prioritizing the reduction of debts versus France, and, on the other, U.S. President Barack Obama advocating economic stimulus to boost domestic demand. These discussions show that finance is no longer confined simply to an abstract academic discipline. More important today are existential issues regarding the optimal size of the financial sector relative to different economies and their historical trajectories.

A second argument as to why Germany was slow in supporting France to stem the sovereign debt crisis may have to do with the increasing economic weakness of France. Since Merkel rejected Sarkozy's call for a quick response to the financial crisis in 2008, and again to rescue Greece in early 2010, France seems to have accepted Germany's more dominant role in solving the Eurozone debt crisis. For France the stakes seem high to challenge the German position outright, since an open conflict with Germany could frighten the markets even more and thus endanger the EURO. Yet Germany also needs France, since the Franco-German axis is crucial for the conception and vision of a viable Europe. Ole Wœver argues that Europe (as an idea, concept, and vision) is necessary to any political vision in these two countries.[71] Compatibility with domestic and external policy preferences in France and Germany is necessary for Europe (as a political process) to continue. While it is true that Germany and France have had strong disagreements coming up with a mechanism to deal with the sovereign debt crisis, nevertheless, both countries have also come closer on some issues such as greater coordination of economic policy.[72]

A third explanations as to why Germany may have progressed to a more "muted normality,"[73] in the course pursuing a more self-confident nationalist policy, has to do with the generational change from political leaders such as Helmut Kohl, Hans Dietrich Genscher, Helmut Schmidt, who with their counterparts in France (Jacques Chirac, François Mitterrand, Valéry Giscard d'Estaing) had personal memories of the horrors of World War II. For this wartime generation, the European Union was the answer to the slaughters of Verdun or Stalingrad. Coming from the same generation, it is not surprising that Jürgen Habermas accuses the present political class of having lost its European vision.[74] Starting already with Gerhard Schröder, chancellor from 1998-2005, and moving to the "1989 generation," national interests seem to play a larger role than for the older war time generation. Twenty years ago, it was Kohl who spoke in the Bundestag on 6 November1991 among thunderous applause: "One cannot say this often enough. Political union is the indispensible complement to Economic and Monetary Union. Recent history, and not just Germany's, teaches us that an enduring Economic and Monetary Union without a political union is absurd."[75] Such a vision no longer exists in Germany today. Tony Judt, the recently deceased historian, points to the current chancellor's eastern upbringing as an important explanatory factor: "Angela Merkel having grown up in the East does not appear to have the slightest understanding of the essence of the EU and the costs that are associated with its neglect."[76] Karl Mannheim's insights regarding the importance of generational cohorts who are shaped by their past which can influence future behavior throughout this generational cohort is a starting point to explain this generational shift. Thus we may witness a lesser commitment to a European political union by this generation with no personal memories of the war and destruction.

Conclusion

This article focused on two questions. First, is Germany to blame for the sovereign debt crisis and the asymmetries within the Eurozone? Second, as an explanation for recent policy behavior, has Germany become more nationalist and Euroskeptic? In terms of the first question, we conclude that low wage increases, labor market pressure (East Germany), the Agenda 2010 reforms, led to a lack of domestic consumption growth in Germany. Nevertheless, we reject the argument that moderate wage increases have led to the export success as compared to other European trading partners. German product segments traditionally show little price elasticity and thus a decline in real exchange rates makes little difference for companies' bottom line. The German export boom was foremost the result of fast growing trading partners in Eastern Europe and Asia. Moreover, the export surplus went only partially into European peripheral countries. These countries showed strong capital imports and consumption booms, partly based on a credit boom, which generated demand for imports from Germany. Thus, recent German export success had another side–the boom-bust cycles of the peripheral countries, which, despite the rescue packages and the intervention of the ECB has led to a vicious cycle spurred by bond markets. If there is insufficient reform of the Eurozone financial markets–and here the cards are very much in the hands of the German government–further dangerous contagion effects can be expected in other European Union countries.

In terms of whether Germany has become more Euroskeptic, the evidence clearly shows that the country has become bolder in asserting its national interests against other members of the EU and Eurozone. The European Union, and then later the Eurozone, was originally a project to overcome the divisiveness of Europe–much of which was premised on Germany forgoing the conventional pursuit of national interest and subordinating itself to European and usually French preferences. Now in the competitive struggle of globalization, however, the country has turned increasingly inward and pursues self-interested policies. Whether this marks a generational change or whether this is due to domestic concerns–such as the culture of monetary stability, the threat of a Constitutional Court veto, the electoral cycle, or fleeting disharmony between the German chancellor and the French president–is too early to tell. Undoubtedly, generational change has fostered a more "muted German normality" and more self-assurance in pursuing national interests. Yet, Merkel has so far sent mixed signals. She was instrumental in securing the passage of the Lisbon Treaty, and during the sovereign debt crisis she has reiterated that the "EURO is our common destiny, and Europe is our common future."[77] But, there is also little doubt that the EU and the Eurozone are at a crossroads. The big question is whether Germany's euro-skepticism will "leave behind a European project built in no small measure on the nation's guilt and its pocketbook"[78] or whether we will see a revival of the European ideal? Either direction will depend to a large extent on Germany.

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Notes

1. Richard Deeg, "The Comeback of Modell Deutschland? The New German Political Economy in the EU," *German Politics* 14, no:3 (2005): 332-353
2. "Domestic demand spurs growth in Germany," *Financial Times*, 13.January 2011, 3.
3. Between 1999-2008, German unit labor costs remained almost flat, whereas for other EU countries, there was a strong upward trend (see Figure 3).
4. Current account surpluses are defined as exports minus imports minus net transfers to other countries.
5. Hans-Werner Sinn, "Rescuing Europe," Special Issue CESifo Forum 11 (2010), available at http://www.cesifo-group.de.
6. Martin Wolf, "Germans are wrong: the Eurozone is good for them," *Financial Times*, 8 September 2010, 9.
7. "Older and Wiser: A Special Report on Germany," *The Economist,* 13 March 2010, 3-18
8. Ordoliberalism is associated with the Freiburg School, around the economists Walter Eucken and Franz Böhm and has provided the theoretical foundation for the European Social Market Economy.
9. During debates over the creation of the Eurozone, many commentators argued that the EURO area is not necessarily an economic project, but rather a political one intended to overcome centuries of war and destruction.
10. Paul De Grauwe, "Fighting the Wrong Enemy," 5 October 2010, available at www.voxeu.org/index.php?q=node/5062.
11. Nigel Dodd, "Money, Law, Sovereignty: Where does this crisis leave the state?" Paper presented at the ECPR-SGIR conference, Stockholm, 11 September 2010.
12. De Grauwe (see note 10); Carmen M. Reinhart and Kenneth S. Rogoff, "Growth in a Time of Debt," *American Economic Review* 100, no. 2 (2010): 573-578.
13. Angela Merkel, "Die Währungsunion ist eine Schicksalgemeinschaft," Statement made in the German Parliament, 19 May 2010, printed in *Das Parlament: Debatten/Dokumentation.*
14. The EU rescue fund was rated "triple A" on 21 September 2010. This AAA rating is important, since the fund relies on the commitment of its fifteen Eurozone national governments (except Greece) to back its debt with their respective balance sheet.
15. Marica Frangakis, "The Rising Public Debt in the EU: Implications for Policy," Journal of Contemporary European Studies 19, no. 1 (2011): 7-20. This rescue package is in addition to the previously granted EURO 80 billion EU rescue plan for Greece, and the EURO 30 billion from the IMF Stand-by Arrangement. Sinn (see note 5), 1.
16. Sinn (see note 5), 10.
17. The conservative newspaper, *Welt am Sonntag*, published an on-line poll on 25 April 2010 reporting that 86 percent of Germans were opposed to a rescue package for

Greece and only 14 percent were for it (total votes 69681), available at http://www.welt.de/wirtschaft/article7325669/Aerger-ueber-Eiltempo-bei-Hilfe-fuer-Griechenland.html.

18. See Deeg (see note 1); Wolfgang Streeck, Reforming Capitalism, Institutional Change in the German Political Economy (Oxford, 2009).
19. Sinn (see note 5), 8; Peter Spahn, "Die Schuldenkrise der Europäischen Währungsunion," WISO direct, Friedrich Ebert Stiftung (2010).
20. Merkel (see note 13).
21. "EU-Spitze schwenkt auf Merkels Griechenland-Kurs ein," *Handelsblatt,* 25 March 2010, available at www.handelsblatt.com/politik/international/nothilfe-mix-eu-spitze-schwenkt-auf-merkels-griechenland-kurs-ein.
22. Thomas Fricke, "Euroland auf dem Prüfstand. Ist die Währungsunion noch zu retten," Internationale Politikanalyse, Friedrich Ebert Stiftung (2010), available at http://library.fes.de/pdf-files/id/ipa/06376.pdf
23. "Eingemauert an der Spitze," *Spiegel-Online*, 13 May 2010, available at www.spiegel.de/politik/deutschland/0,1518,druck-694437,00.htm.
24. Otmar Issing, "Europäische Währungsunion: Gefahr für die Stabilität," *Frankfurter Allgemeine Zeitung*, 11 November 2010, available at http://www.faz.net/s/Rub3ADB8A210E754E748F42960CC7349BDF/Doc~E69AFBAA9E49D4D3895592F6CD6433447~ATpl~Ecommon~Scontent.html; "German High Court Considers Euro Bailout," *Spiegel Online*, 6 August 2010, available at http://www.spiegel.de/international/germany/0,1518,699471,00.html
25. Merkel (see note 13), 1; Sinn (see note 5), 5.
26. *The Economist* (see note 7).
27. European Commission, "Quarterly Report on the Euro Area. Special Issue: The Impact of the global crisis on competitiveness and current account divergences in the euro area," 9, no. 1 (2010), available at http://ec.europa.eu/economy_finance/publications/qr_euro_area/2010/qrea1_en.htm
28. Sinn (see note 5), 14.
29. Since the outbreak of the crisis in 2008 there have been reversals in both surplus and deficit countries. Germany has seen significant falls in its external balances, at least until the strong resurgence of exports in the Q2 of 2010. European Commission (see note 27). But, deficits in excess of 5 percent of GDP are still predicted in 2010 for Greece (-7.9 percent), Portugal (-10.2 percent), and Spain (-4.6 percent). EuroMemorandum Group 2009/2010: Europe in Crisis: A Critique of the EU's Failure to Respond, 5, available at http://www.lwbooks.co.uk/ebooks/EUROMEMORANDUMpercent202009-2010.pdf.
30. European Commission (see note 27), 8; European Commission, "Quarterly Report on the Euro Area. Special Report: Competitiveness developments within the euro area," 8, no. 1 (2009), available at http://ec.europa.eu/economy_finance/thematic_articles/article14654_en.htm.
31. Patrick Artus, "Die Deutsche Wirtschaftspolitik: ein Problem für Europa?" WISO direct, Friedrich Ebert Stiftung (2010), 2.
32. "Lagarde warning to Berlin," *Financial Times*, 15 March 2010, 1.
33. Deeg (see note 1); Streeck (see note 18); Kenneth Dyson, "Binding Hands as a Strategy for Economic Reform: Government by Commission," in *The Politics of Economic Reform in Germany: Global, Rhineland or Hybrid Capitalism?*, eds., Kenneth Dyson and Stephen Padgett (London, 2006), 110-133.
34. Some derive the nominal unit labor costs from nominal labor remuneration divided by real output. But since in the peripheral countries the inflation rate and nominal wage increase were higher, they ended up with higher nominal unit labor cost. For such a computation see Costas Lapavitsas et al., *EurozoneCrisis: Beggar Thyself and Thy Neighbour*, RMF Research on Money and Finance, March 2010, 22, available at www.researchonmoneyandfinance.org.
35. *The Economist* (see note 7); EuroMemorandum (see note 29).
36. European Commission (see note 30), 17.

37. EuroMemorandum (see note 29); EuroMemorandum Group 2008/2009: Democratic Transformation of European finance, a full employment regime and ecological restructuring – Alternatives to finance-driven capitalism, available at http://www.lwbooks.co.uk/ebooks/EUROMEMORANDUM2008_09.pdf; Dimitri Papadimitriou, L. Randall Wray, and Yeva Nersisyan, "Endgame for the Euro? Without Major Restructuring, the Eurozone is Doomed," Public Policy Brief, 113 (2010), Levy Economics Institute of Bard College.
38. Hans-Werner Sinn, "The Pathological Export Boom and the Bazaar Effect: How to Solve the German Puzzle," *The World Economy*, 29, no. 9 (2006): 1157-1175.
39. Sinn argues that western Germany had the highest hourly wage costs of industrial workers in the world, and only recently has it been surpassed by Denmark. Western German wage costs per hour for industrial workers stood at EURO 27.60, while the respective costs for Sweden were EURO 23.30; for France EURO 20.70; the US EURO 18.80; Japan EURO 17.90, and the UK EURO 19.90.Of course, this is in terms of gross wages, and not net wage, deducting payroll tax, and not in terms of unit wage costs since it neglects productivity. Ibid., 1158.
40. Ibid., 1161.
41. Sinn's argument is based on the standard trade model of factor price convergence, which theorizes that wages of trading partners at similar stages of development converge creating a single world labor market. If factor price convergence is resisted, the effect will be high unemployment, since the economy adjusts through further specialization in the capital-goods sector. This process leads to more international trade, but also to an inefficient allocation of factors. See also Stephan Danninger and Fred Joutz, "What explains Germany's Rebounding Export Market Share?" CESifo Working Paper, 1957, Category 5: Fiscal Policy, Macroeconomics and Growth, March 2007, available at http://ssrn.com/abstract=981115
42. Artus (see note 31), 2.
43. Danninger and Joutz (see note 41).
44. Sinn (see note 5).
45. Wolf (see note 6).
46. Sinn (see note 5), 1.
47. Another theory postulates that the pre-EURO interest spreads were inefficient and resulted from uncertainties in the currency markets. Thus, the introduction of the EURO and the creation of an integrated capital market would lead to greater efficiency in the allocation of capital, Sinn (see note 6), 11.
48. Ibid., 15.
49. Ibid., 17.
50. Yet, one has to note that it is well known that investment rates do not affect growth rates in the long run, but rather per capita income. Only the transitional growth rate is affected by investment rates.
51. Sinn (see note 5), 18.
52. European Council, "Conclusions of the European Council," 16-17 December 2010, EUCO 30/10, CO EUR 21, Concl 5, Brussels 17 December 2010, available at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/118578.pdf.
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55. "Bundesregierung weist Juncker-Kritik zurück," *Die Zeit-Online*, 8 December 2010, available at http://www.zeit.de/wirtschaft/2010-12/Juncker-Euro-Bonds.
56. "Merkel gegen Euro-Bonds," *Die Zeit Online*, 6 December 2010, available at http://www.zeit.de/wirtschaft/2010-12/schuldenkrise-irland-ezb-iwf

57. Otmar Issing, "Germany is right: bondholders must pay," *Financial Times*, 2 December 2010, 13.
58. Wolfgang Schäuble, "Financial markets 'do not understand the euro,'" *Financial Times*, 6 December 2010, 3.
59. European Council (see note 52), 6-9.
60. Ibid.
61. Ibid., 6.
62. "Portugal bail-out fears intensify as borrowing costs continue steep rise," *Financial Times* 8-9 January 2010, 1.
63. Martin Wolf, "The eurozone needs more than discipline from Germany," *Financial Times*, 22 December 2010, 9.
64. Frank-Walter Steinmeier and Peer Steinbrück, "What should Europe do now to secure the eurozone?" *Financial Times*, 15 December 2010, 11.
65. Wolfgang Münchau, "Germany's goal is limited liability," *Financial Times*, 20 December 2010, 9.
66. Steinmeier and Steinbrück (see note 64).
67. Dodd (see note 11).
68. Barry Eichengreen, "Jämmerliches Versagen," *Handelsblatt*, 1 December 2010, available at http://www.handelsblatt.com/meinung/gastbeitraege/irland-jaemmerliches-versagen;2702860
69. Frangakis (see note 15).
70. Peer Steinbrück, "Eine bessere internationale Finanzarchitektur–auch für die Menschen in unserem Land," SPD-Nord-Süd Info-dienst, 100 (2009), 17.
71. Ole Wœver, "European Integration and Security: Analysing French and German Discourses on State, Nation, and Europe," in *Discourse Theory in European Politics*, eds., David Howarth and Jacob Torfing (Houndmills, 2005).
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73. *The Economist* (see note 7), 17.
74. Jürgen Habermas, "Deutsche Politik hat Europa-Vision verloren," (2010), available at www.fr-online.de/in_und_ausland/kultur_und_medien/feuilleton/?em_ctn=2663709&em_loc=89
75. Issing (see note 57), 3.Translation by the authors.
76. "Wir brauchen eine ethische Weltsicht," Interview with Tony Judt, *Die Zeit*, 12 August 2010, 44. Translation by the authors.
77. Bundesregierung (see note 53)
78. "Young Germans are to celebrate homeland," *International Herald Tribune*, 11-12 September 2010, 1.