Scenario for a Wonderful Tomorrow

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Europe is falling apart, destroyed by its most devoted fans, the Germans. In the summer of 2015, having humiliated the Greeks by forcing another reform diktat down their throats, Angela Merkel started a new game, aimed at diverting attention from the economic and political disaster monetary union had become. Abrupt changes of policy are nothing new to Merkel, who is best described as a postmodern politician with a premodern, Machiavellian contempt for both causes and people. Having made her party adopt a radically neoliberal, deregulationist anti-labour platform in 2003, she barely escaped defeat two years later at the hands of Gerhard Schroeder. When she became chancellor, she used her office and the Grand Coalition with the post-Schroeder Social Democratic Party (SPD) to purge her own party of neoliberalism and neoliberals, and social-democratise it beyond recognition. In 2011, after the nuclear accident at Fukushima, which received extensive media coverage in Germany, it took Merkel, then known as the Atomkanzlerin, no more than a few days to order the immediate closure of eight nuclear power plants and to initiate legislation to end all nuclear power generation by 2022 at the latest. This was only a few months after she had, with much political arm-twisting, got the Bundestag to repeal the nuclear phase-out passed by the Red-Green coalition in 2001, and to extend the operating licences of German nuclear plants by an average of ten years.

Last year, the refugee crisis offered Merkel another opportunity to demonstrate just how fast she can change tack. Once again, media coverage influenced her decision-making, just as it would a few months later when smartphone videos of the New Year’s Eve riot at Cologne Central Station triggered another 180 degree turn in her policies. In July a PR event, part of a government campaign to encourage cabinet members to meet ordinary citizens and listen to their ideas, went wrong. One of the young people invited to take part in a ‘dialogue’ with Merkel on the environment, the 14-year-old daughter of Palestinian asylum seekers, unexpectedly complained in front of the TV cameras that her family, who had been living in Germany for four years, might be sent back to the Lebanon at any moment. She asked, in flawless German, why she wasn’t allowed to stay in Germany ‘to enjoy life like everybody else’. Merkel said something like, ‘we cannot take in everyone, much as we might want to.’ The girl began to cry. Not knowing what to do, Merkel started patting the child’s head with a helpless expression on her face. The result was widespread outrage on social media. A few
months later, the authorities told the girl’s family that they could stay in Germany for at least another year.

The elite was persuaded that the German public would never put up with images like those of the Jungle in Calais. Day after day the media, whipped into a frenzy by Facebook and Twitter, accused France and Britain of callously denying migrants’ human rights. Then, in September, the publication of the photograph of the dead Syrian child, Alan Kurdi, forced political leaders worldwide into hectic if symbolic activity. Among Germans it was widely believed that the boy’s death was the fault of ‘Europe’ as a whole, including Germany. Meanwhile, refugees had been gathering in increasing numbers at Budapest’s central station, which produced another set of powerful images; most of those refugees seemed to be heading for Germany.

A master politician like Merkel will never let a good crisis go to waste. It wasn’t just media stories about suffering migrants that led her to invite the refugees in Budapest to come to Germany, no papers required and no questions asked. What Merkel called ‘showing a friendly face in an emergency’ was meant to shame those who, during the euro crisis, had enjoyed the cartoons of Merkel and her finance minister, Wolfgang Schäuble, in Nazi uniform. By opening the German border while the French and British borders remained closed, Merkel could hope to recapture the moral high ground occupied for so long by those accusing the German government of sado-moneterism, or worse.

Another factor was the tight labour market that German employers, still Merkel’s main constituency, were facing, especially after the introduction of a statutory minimum wage was forced on Merkel by her coalition partner, the SPD. Rumours spread in the German press that Syrian refugees in particular, many of them allegedly with degrees in engineering and medicine, had all manner of skills. German economic research institutes predicted a new Wirtschaftswunder, while employers promised to invest heavily in training the presumably tiny number of less skilled immigrants. Everybody assumed that most if not all the refugees and asylum seekers – a distinction soon lost in the general excitement – would stay in Germany for a long time if not for good. For Merkel, who in October 2010 claimed that ‘the multikulti approach [had] failed, absolutely failed,’ this was no longer a problem. In fact, it had become a solution: in the first half of 2015, several studies indicated that the expensive measures taken over a decade of Merkel rule to induce German families to have more children had had next to no effect. Early that summer, to avert what was perceived as a looming demographic crisis, Merkel got her closest aides to test the mood in the party and among the general public on immigration legislation, but was met with firm resistance.

Budapest was what the ancient Greeks called a kairos – a lucky moment when a number of birds were positioned in such a way that they could be killed with one stone. Politics, as always with Merkel, trumped policies. ‘Showing a friendly face’ would make it possible for the Greens at the next election in 2017 to do what their leadership has long wanted to do but never dared: enter into a coalition government with the Christian Democrats. Merkel acted exactly as she did on neoliberal reform in 2005 and nuclear energy in 2011: quickly, on her own, and without wasting time explaining herself. Just as she did when she ordered the Energiewende (‘energy transition’) while the law extending the lifespan of the nuclear power plants was still on the books (several energy supply companies are suing for damages), she
counted on the opposition parties in the Bundestag – Linkspartei and the Greens – not to ask awkward questions, and they obliged. The members of her party couldn’t complain: they had been backed into a corner by the SPD’s approval of Merkel’s stance, and by their desire not to damage their leader. Once again, a decision ‘that will change our country’, as Merkel herself put it, was made without regard for democratic process or, for that matter, constitutional formalities. When Merkel declared the German borders open, there had been no cabinet decision to this effect and no official statement in the Bundestag. Since the opposition didn’t ask, as Merkel knew they wouldn’t, nobody knows to this day what sort of order, legal or not, by whom and when, was given to the police. The Interior Ministry is still refusing requests from leading figures (including the former president of the constitutional court, who was preparing a legal opinion on the matter for the Bavarian government) for access to the ministerial decree that should have been issued to the border authorities.

There were good reasons for asking questions. The refugees, more than a million of them, who arrived in Germany in 2015, all arrived from safe third countries. Under German and European law, they had to register in the country where they entered the European Union, and then wait to be assigned a legal residence in a member state. Merkel seems to have decided that she could safely ignore all this. When anyone complained that this was both a huge stress test on German society and a giant social engineering project, Merkel regally announced that if she had to apologise for ‘showing a friendly face’, ‘then this is not my country’ – an extraordinary statement for a democratically elected leader to make. In fact, as the Energiewende demonstrated, she has for some time been governing not like a parliamentary leader but like a president with emergency powers. For some time, inquiries into the wisdom of her immigration policy were answered by her entourage – which in this case included all the Bundestag parties – by claiming that the mere expression of dissent ‘played into the hands of the right’, a potent rhetorical device in Germany. Until Cologne, concern over the government’s handling of the refugee crisis was effectively suppressed.

Between September and January, Merkel’s minister of the interior was left out of the loop as Merkel governed directly, using staged public appearances – press conferences, talk shows and party conventions – to cultivate the support of those in German society who saw the influx of refugees as an opportunity to demonstrate to the world their country’s new friendliness. Merkel did not shy away from Obama-style nationalist pathos, employing it in her annual summer press conference on 31 August, when she told her compatriots: ‘Germany is a strong country … We did so many things, we can do that. We can do it, and where something gets in our way, it has to be overcome.’ For six months she evaded all constitutional checks and balances, enjoying the praise showered on her by, among others, Time magazine, which made her Person of the Year 2015. She was talked about as a candidate for the Nobel Peace Prize, and even Holocaust Remembrance Day on 27 January turned into a Merkelfest when the guest speaker in the Bundestag, an Austrian writer who survived the Holocaust, told her audience that ‘this country, which eighty years ago was responsible for the worst crimes of the century, has today won the applause of the world, thanks to its open borders.’

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What about Europe? And why dwell so long on the refugee crisis when I’m supposed to be discussing a book on the euro crisis? The answer is that Merkel’s immigration policy offers an object lesson in what other countries can expect from Germany acting European. Just as the United States sees the world as an extended playing field for its domestic political economy, Germany has come to consider the European Union as an extension of itself, where what is right for Germany is by definition right for all others. There is nothing particularly immoral about this; indeed Germans think it is supremely moral, as they identify their control of Europe with a post-nationalism understood as anti-nationalism, which in turn is understood as the quintessential lesson of German history. Very much like the US, German elites project what they collectively regard as self-evident, natural and reasonable onto their outside world, and are puzzled that anyone could possibly fail to see things the way they do. Perhaps the dissenters suffer from cognitive deficits and require education by Schäuble in the Eurogroup classroom?

One problem with hegemonic self-righteousness is that it prevents the self-righteous from seeing that what they consider morally self-evident is informed by self-interest. The self-interest of German export industries, for example, underlies Germany’s identification of the ‘European idea’ with the single European currency. The problem is exacerbated by the fact that the national interest that is mistakenly seen as identical to the interest of all reasonable human beings, in Europe and beyond, is necessarily shaped by the political interest of the government and its dominant social bloc in preserving their power. This puts peripheral countries at the mercy of the national power games and the moral and semantic ethnocentrisms of countries at the centre, which are hard to decipher for outsiders – especially with a postmodern leader like Merkel who, free from substantive commitments and constitutional constraints, has perfected the art of staying in power by means of unpredictable changes of course.

As the refugee crisis unfolded, Europe was dragged into the complicated twists and turns of German domestic politics. Merkel early on informed an astonished German public that controlling national borders had become ‘impossible in the 21st century’, and backed this up by aggressively criticising the Hungarian government for preparing to close its borders. After Cologne, of course, the closing of borders suddenly became possible again, and Hungary re-emerged as a model for the rest of Europe, in particular for Greece, which was threatened by Germany with exclusion from the Schengen area if it didn’t seal its borders. German law forbids, or is said by the German government to forbid, sending would-be immigrants away once they have expressed a desire to apply for asylum. So Merkel had to get the Greeks, and Europe as a whole, to observe this principle, lest her German pro-immigration constituency smelled the rat that was heading in its direction. The burden of keeping the migrants out of Europe fell on Turkey, which was supposed to put an end to the illegal trafficking of migrants to Greece – on a country, that is, whose human rights record suggests it may not be particularly careful when dealing with Syrian or any other refugees. Of course, Turkish cooperation had a price, and though Merkel had in the past steadfastly opposed the country’s bid for EU membership, now, having changed tack again and speaking on behalf of Europe as a whole, she promised Erdoğan expedited negotiations on accession as a reward for preventing the Syrian refugees she had invited to enter Germany from entering Greece. When
Turkey demanded money too, Merkel chose to see this as a matter for ‘European solidarity’, just like the funding of the new EU border protection agency, Frontex, which patrols the Greek and Italian coastlines. European borders become German borders, and by implication Europe becomes Germany. By mid-February, German warships under Nato command were patrolling the Mediterranean in order to intercept migrants and return them to Turkey. Since Nato warships are neither European nor German, even if they are German warships, the rescued can be sent back without the German courts or the German Greens interfering.

So immigration once again became ‘Europeised’ while Europe became more ‘Germanised’ than ever. Merkel’s highest priority is to avoid having to close the German border, as Denmark and Sweden have closed theirs: closed borders make for ugly pictures, and they also make German voters wonder whether it’s worth paying for Europe if they have to stop at the border when they go on holiday. Moreover, German businesses have begun claiming that the end of Schengen would cost billions of euros because of time lost at Europe’s internal borders, as well as tens of thousands of jobs. Even so, the German public had to be given a reason to believe that the number of immigrants coming to Germany is going to drop. EU member states must therefore agree to take a share of the immigrants invited by Germany, even though they weren’t consulted before Merkel made her offer. The number of migrants can have no upper limit, or Obergrenze, a term that Merkel’s PR machine has declared anathema, and that has consequently become a signifier in German public discourse of Fremdenfeindlichkeit (xenophobia, if not racism). It’s difficult, however, for member countries to commit to letting in a defined proportion of an undefined total number of migrants. So Visegrád-bashing – Visegrád representing the alliance of four Central European countries, the Czech Republic, Poland, Slovakia and Hungary – followed Hungary-bashing, and German politicians started threatening Poland, of all countries, with financial punishment unless it fell in line with German-style ‘European solidarity’.

Merkel’s latest change of direction, with three critical Länder elections imminent, was announced in a speech to a CDU party conference on 30 January, when she pointed out that ‘protection under the Geneva Convention is for the moment limited to three years.’ Refugees had to understand that their status was a temporary one, she said. Addressing them as ‘Du’ rather than the more formal ‘Sie’, Merkel continued: ‘We expect that, when peace has returned to Syria and the IS in Iraq has been defeated, you will, with the skills that you have received here, return to your homeland.’ While this was designed to assuage the growing opposition to immigration and perhaps to deter some of the would-be immigrants, core supporters of Wilkommenskultur can still pin their hopes on the fact that in Germany refugees are normally granted indefinite leave to remain after three years, and only a tiny number are sent back to their countries of origin even if, after lengthy legal procedures, it’s decided that they haven’t got grounds to remain.

The result of all the equivocation, double-talk and Merkelspeak, this difficult-to-disentangle mix of self-interest and sentimentality, is an immense political and institutional mess caused by the imposition on Europe of German policies disguised as European policies to which, supposedly, there is no alternative. This includes a restructuring of the citizenry through immigration, not just in Germany where it might seem economically or demographically
expedient, but also in other European countries where it definitely isn’t. The result is rapidly rising anti-German sentiment in the form of anti-European sentiment, not only among political elites but also, most powerfully, among the electorate.

Devastation has similarly been visited on the Economic and Monetary Union (EMU): German-dictated European solutions have led to economic and political disaster. As with immigration, many people across Europe are now calling for more national autonomy on economic policy, including monetary policy. There is more discussion than ever before of a ‘Plan B’ for the euro, in case attempts by France and Italy to force Germany and its allies into a non-German European solution to the crisis do not succeed. The new ‘European question’ is whether the only way to protect Europe from the antics of a German chancellor and her increasingly personal rule is to dismantle centralised European regulations like Dublin and Schengen, along with the euro.

This, finally, is where Martin Sandbu’s refreshingly eccentric book comes in. Its argument, in short, is that giving up on monetary union would be a mistake, since a common European currency, despite what Europeans are being told, does not have to be a common German currency requiring a common German political economy. The euro, Sandbu argues, leaves enough space for national variety, autonomy and democracy. That the EMU is in such a deplorable state is the result of ill-conceived policy decisions made as a consequence of German hegemony, abetted by French opportunism and collective strategic shortsightedness. According to Sandbu, a self-confessed European federalist, the euro is needed, both by Europe and the world, but would be better regulated than it is today if it was regulated on British terms, which would safeguard national sovereignty regardless of the common supranational currency. Britain, Sandbu argues, should not only remain in the EU but should adopt the euro, the sooner the better, in its own interest as well as that of Europe and everybody else.

Sandbu’s book is both retrospective and forward-looking; its author, small wonder given that he works for the Financial Times, is enviably certain that he knows exactly what went wrong with the euro and how it could be fixed. He offers a scathing critique of European ‘rescue policies’ after 2008, presenting them as Germany’s imposition of its national interests and ideology on the rest of Europe. He expounds at length on what the mistakes were, and why they were made. This makes demands on one’s patience, but Sandbu does have a point: a bail-in of those who had hoped to profit from high-risk lending to what became ‘debtor countries’ might have spared Europe many of the political divisions, the infringements of national sovereignty and national democracy, the debt bondage and the economic agony that Euroland countries have had to suffer so that banks and their shareholders and creditors could be bailed out.

Sandbu offers an interestingly revisionist account of the post-2008 European crisis. According to him, it was not caused by anything specific to the euro but by a credit bubble that affected most rich capitalist countries at the turn of the century. The bubble, which was due to surplus countries under German leadership moving their capital from north to south,
had such devastating consequences because of national policies in the debtor countries that allowed credit furnished by reckless lenders to be used for consumption instead of improving productivity. Sandbu argues that debtor countries like Greece and Spain did not have a ‘competitiveness problem’, the diagnosis of creditor countries and international organisations, but suffered simply from over-consumption made possible by borrowed money. The national governments, which together with imprudent banks had produced the bubble, could and should have been left to deal with the consequences on their own, by way of debt restructuring and bank resolution followed by structural reform and fiscal expansion. Instead, creditor countries bailed out debtor countries so that they would be able to service the debt, which was held mostly by German and French financial institutions. In return, they expected austerity policies that were intended to increase national competitiveness but in fact merely stifled growth. Sandbu attributes the insistence on austerity to Germany’s ‘moral’ obsessions, according to which debt must always be repaid in full come what may – he sides with the ‘mad Germans’ rather than the ‘bad Germans’ theory. This relieves him of the need to address the possibility that Germany, and other countries too, may have been afraid that risk premiums on public debt would increase in response to creditors having to accept ‘haircuts’ – an increase that would pose problems for indebted countries where servicing that debt consumes a significant proportion of public expenditure.

Looking forward, Sandbu argues that a common monetary regime is possible without creating a situation in which the Germans run it while other countries resist until, as with the immigration crisis, we end up with a costly stand-off. National sovereignty, Sandbu claims, is compatible with monetary union; no centralised control is needed. In particular, there is no need for flexible exchange rates between European countries, however different they may be, or for debt mutualisation. (A gold standard is compatible with national democracy, after all.) Moreover, under the umbrella of the common currency there is leeway for voluntary coalitions of the willing and able – for groups of countries to issue eurobonds, for example, with or without German participation, just as clusters of countries are currently coming together to replace the defunct Schengen regime. Even if there was a problem with competitiveness, which in countries with monetary sovereignty would normally be resolved by monetary devaluation, fiscal devaluation could do the trick, with governments cutting non-wage labour costs and borrowing to fill the resulting fiscal gap.

Of course, Sandbu’s optimism depends on the German government convincing itself and its voters to abandon its ‘idolatry of debt’, and resisting American pressure to protect American loans and banks. Sandbu wants the Germans to learn from the British that a bank that extends credit to over-indebted governments, or to firms and consumers unlikely to repay it, must bear the consequences – there should be no bailing out of imprudent lenders under the guise of international solidarity. Other conditions that must be met include the Germans ceding their role as international disciplinarians to the financial markets; the French giving up their belief that states are smarter than banks, and getting rid of their ‘vainglory and the lack of confidence that so often underpins it’; and the British abandoning their obsession with ‘balancing’ the European powers and joining the EMU to prevent Germany from establishing itself as the European unifier (and in so doing blowing up the European construction). In addition, countries lagging in productivity must under the pressure of now more risk-
conscious financial markets, impose the domestic reforms necessary for nationally generated fiscal stimulus to work – the very reforms that, despite German-cum-European pressure, have so far foundered in the face of popular and elite resistance. Inflation-prone national institutions, especially wage-setting regimes must be converted into productivity-enhancing ones, and democratically elected governments must resist the temptation to allow credit to be spent on consumption. Behind Sandbu’s scenario for a wonderful tomorrow under the EMU, one senses the economist’s lack of appreciation for the inertia of institutions, social structures and established ways of life, as well as an overly generous view of the capacity of markets to punish and correct political opportunism, and of treasuries to govern and restructure economies and societies using skilfully measured doses of money and credit – a dream Keynes may be forgiven for having dreamed in a society incomparably more deferential to established authority than today’s.

Sandbu’s belief that a common European currency can be run without an international hierarchy given to ‘unforced (or German-forced) errors’ is fair enough. But can we ignore the politics here – or the relation of the German government to its electorate, or northern states in relation to their southern and eastern peripheries, and southern elites requiring infusions of cash to prevent their states and societies from falling apart? And can markets be trusted to make politics dispensable? Even if the debt crisis is, as Sandbu suggests, resolved by sovereign default and debt forgiveness, and if some kind of growth can be restored by a politics of productivity instead of debt-financed consumption – will this close the gap between incomes and living standards in the European North and South and thereby pre-empt demands for a ‘transfer union’? There is certainly room for doubt: consider the apparently insurmountable regional disparities between northern and southern Italy, or between West Germany and East Germany, where another non-optimal currency union took place 25 years ago. Unlike the disparity between north and south in Italy, the German regional income gap cannot be blamed on mafioso malfeasance, nor was there a lack of ‘reform’ in East Germany; the old elite there was removed in 1990 and there was a comprehensive transfer of the West German system. Still, for almost two decades now, per capita income in East Germany has been between 25 and 30 per cent lower than in the West, and tax revenue is lower still, even though, since the turn of the century, there has been a yearly transfer from west to east of between 3 and 4 per cent of national GDP. All this does, however, is keep the gap from widening.

Sandbu’s vision of a prosperous future under a common currency, with national autonomy benevolently policed by a well-ordered financial market, may seem an economist’s utopia. Whether monetary union will break down like Dublin and Schengen remains to be seen. What seems most likely, unfortunately, is a big and long-lasting mess. National autonomy and sovereignty will be at the centre of a succession of indecisive battles over the meaning of European treaties, the political role and legal competence of the European Central Bank, the content of new reform packages, and the size of the transfers to which reforming countries will be entitled – all this accompanied by growing popular alienation and voter discontent. The North will threaten to starve the South, the South will gang up on the North, Germany will undertake to ‘reform’ France, France will demand ‘European solidarity’ from Germany. There will be a decade of bad blood, mutual incrimination, temporary fixes and ever-
declining respect for centrist parties, national governments and international institutions. It will be nasty, brutish and unfortunately far from short.

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