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Understanding the Eurozone Crisis in the Mirror of Germany's Visions of Europe

Since the defeat of the III Reich in World War II, the history of Germany has been defined by an attitude of great commitment to European integration, which has transformed it from the beginning of the process that would lead to the current European Union into the main "locomotive" of European unity. In this essay, centred on the study of Germany's responses to the Eurozone crisis, the goal is, going beyond the superficial and phenomenal level, to identify the three political metamorphoses of German history since 1945, as well as the changes in the representation of Europe and its future meant by the different economic doctrines and policies, still in dispute.

Keywords: European integration (theories), federalism, hegemony, monetary union (doctrines), ordoliberalism

Desde a derrota do III Reich na II Guerra Mundial, a história da Alemanha é marcada por uma atitude de grande empenhamento na integração europeia, que a transformou desde os inícios do processo que conduziria à actual União Europeia na principal "locomotiva" da unidade europeia. Neste ensaio, centrado no estudo das respostas da Alemanha à crise da Zona Euro, procura-se, ultrapassando o plano superficial e fenoménico, identificar as três metamorfoses políticas da história alemã desde 1945, bem como as mudanças na representação da Europa e do seu futuro que as diferentes doutrinas económicas, ainda em disputa, significam.

Palavras-chave: federalismo, hegemonia, integração europeia (teorias), união monetária (doutrinas), ordoliberalismo

"Now it is time to move closer together, to keep a clear head, and to do this as well as possible, because it corresponds to our German interest as well as to our duty regarding our European continent."[1]

(Willy Brandt, Speech in Berlin, 10 November 1989)

Germany arrived late to modern European history. Its lengthy state-building (comparable only to Italy) implied that when Berlin sat at the table of European powers, it encountered much older diners with well-defined interests and pre-established routines. The entrance of such a new nation state in the international political arena, invested with growing mass and might, brought to the Old Continent the risk and reality of belligerence and convulsion. It is no coincidence that today, when one ponders the worldwide impact of China's rise to economic and political prominence in the twenty-first century, one thinks by analogy of nineteenth-century Germany. In fact, the so-called Second Thirty Years' War (1914-1945) was to a large extent a conflict driven by Germany's attempt to find and consolidate its political role in an already 'crystallized' European balance of world power, buttressed by codified narratives based on years of bonding political and diplomatic experience. It is no wonder that, after the defeat of the Third Reich in 1945, the future of the 'German question' merged with the central question of how to build a European political body with immunity mechanisms strong enough to avoid a new attempt at self-inflicted annihilation. This was the goal Altiero Spinelli, a founding father of the European Union (EU), articulated during the war in 1941, and Winston Churchill expressed in a speech at the University of Zurich in 1946. This was also the long task begun by Jean Monnet, Robert Schuman, and the other EU architects in the decades that followed the conflict (Soromenho-Marques 2014: 239-275).

As in any other country, Germany's politicians and intellectuals are prone to mythical self-interpretation when producing narratives about their nation's past, present, and future. This national autobiography

1 Es gilt jetzt, neu zusammenzurücken, den Kopf klar zu behalten, und das so gut wie möglich zu tun, was unseren deutschen Interessen ebenso entspricht wie unserer Pflicht gegenüber unserem europäischen Kontinent.

consists of an archetypal narrative, emphasizing the quest for a unified homeland and stability, which "gives an additional meaning to the story which is not necessarily proposed by the facts" (Roesler 2006: 576). There is a kind of economic wishful thinking that pervades even the academic mainstream discourse about the virtue of stability as an intimate characteristic of a shared German culture and German economic policies. That myth shifted to arrogance during the toughest years of the euro crisis (2010-2013). The factual data tell a different story: Germany's economic and financial history fully echoes its often erratic political and military behavior. From 1923 to 1990 Germany experienced several currency aberrations. The hyperinflation in the years following World War I prompted the introduction of one of the most bizarre currencies ever recorded – the provisional *Rentenmark* – on October 15, 1923. A year later, on September 1, 1924, the *Reichsmark* was restored under the Dawes Plan. After World War II, a full-blown currency reform, introducing the *Deutschmark*, was imposed by the Allied victors in their western German occupation zones on June 20, 1948. Forty-two years later, on July 1, 1990, three months prior to the official reunification of West and East Germany, the costly German Monetary Union was implemented, eliminating and assimilating the *Ostmark*. The voices of the much-vaunted theorists of Ordoliberalism, Walter Eucken (1891-1950) and his colleagues, were mostly ignored as the stormy winds of history blew. These winds brought with them high debt; debt restructuring and pardoning; government interference in the decisions of its central bank (the Bundesbank), which repudiated the demands of the Allied authorities in 1948 for the bank to exercise independence and discipline in employing financial policies; and repeated foreign patronage, especially by the United States (Foucault 2004: 85-87; Chown 2003: 120-121, 297-298; Sinn 2009: 161-164; Marsh 2009: 31-67; Bonefeld 2013: 35-39).

This essay puts to the test the widespread idea that German thinking in the field of political economy has a broad narrative consensus around the principle of budgetary discipline characteristic of the ordoliberal economic doctrine. Looking back over the past 30 years of European and German history – marked both by the merging of the former German Democratic Republic (GDR) into the Federal Republic of Germany

(FRG) after the fall of the Berlin Wall and by the establishment and subsequent existential crisis of the euro in the Economic and Monetary Union (EMU) – exposes several cleavage lines under the apparent German narrative of economic consensus. These rifts have affected and still influence the way Berlin depicts its identity and role in the troubled and increasingly fragile process of European integration. This analysis will reveal the political collision between values and power, and hopefully provoke further reflection on what constitutes the German narrative of its economy and national identity and how it continues to influence German political policies today.

Three Stages of Economic Metamorphosis in Postwar Germany

In order to understand the key issues at stake in assessing how Germany devised a cohesive story to justify its role in the Eurozone Crisis, it is helpful to divide German economic history from 1945 to 2020 into three stages. The first stage, which lasted from the 1948 currency reform to the German Monetary Union in July 1990, only pertains to the FRG, with its capital located in Bonn. Because the GDR, with its capital in East Berlin, possessed a planned, socialist economy under Soviet hegemony until 1990, it is not included in this first phase of postwar German economic history. The second, much shorter phase began after the East German currency was merged with that of West Germany in a complex transitional landscape where different visions of the future clashed, but the capital was soon consolidated in Berlin. This phase persisted from July 1990 to 1997, the year the European Stability and Growth Pact was enacted, in anticipation of the EU adoption of the euro on January 1, 1999. From that year to the present day, a third period may be identified, albeit with variations and oscillations. Henceforth, the first stage will be referred to as "Bonn-Germany"; the second as "Years of Transition"; and the final stage, the "Berlin Republic."

Between 1948 and 1990, Bonn-Germany was a strategically limited country, existing under US and Western European tutelage and protection. It was subject to external screening of its federal constitution and foreign policy. It was integrated into international organizations from the United Nations to NATO, as well as new European organizations such as the European Coal and Steel Community (ECSC) in 1951 and the proposed European Defense Community, which was scrapped after the French Parliament rejected it in 1954. The Franco-German partnership, prescribed by Winston Churchill as imperative, was dominated by its leadership in Paris, and Germany's partition into West and East made the administration of West Germany easier, because it did not include the formerly dominant Prussian territory. Many Germans had been unhappy with Prussian hegemony, firmly established in the Constitution of the Second Reich, which had led to World War I and culminated in the 1945 defeat of the Third Reich. The new borders of the Federal Republic, accommodating the loss of the Oder-Neisse line territories to Poland, along with the creation of the German Democratic Republic, meant the end of Prussia as eager hegemon, but also as the great troublemaker of Germany and Europe. It should also not be forgotten that the first Chancellor of the FRG, Konrad Adenauer, was from the Rhineland. He had been involved, albeit cautiously, in the 1919-1924 political movements seeking greater political autonomy for the western regions of Germany (for some, the aim was actual independence). There is nothing to suggest that Adenauer strongly regretted the new state of affairs that excluded Prussia (Dorten 1925; Tournier 2004: 23; Clark 2007: 670-688).

The division of Germany also took place on a deep cultural level. In West Germany, there was a process of 'denazification,' promoted both by pressure from the occupying authorities and by the ethical requirement to answer the 'The Question of German Guilt' for the Holocaust and other crimes committed by Hitler's regime. In East Germany, under Soviet hegemony, a similar program to acknowledge Holocaust crimes was not implemented. Postwar generations were brought up in completely different regimes in regard to reading the past and the meaning of German expansionism and imperialism. West Germans grew to adulthood with the memory of guilt and a sense of responsibility for the popular complicity with a barbaric regime. East Germans, by contrast, regarded the Nazis as an invading force that had corrupted and oppressed not only the neighboring, conquered countries but also the German people.

The prevailing, overarching narrative that matured during the Bonn-Germany period contains three culturally interconnected principles relevant to understanding the current place and role of unified Germany in Europe. The first principle, emphasizing a 'European Germany,' was formulated as a goal reasserted constantly by leaders from all positions along the political spectrum: Christian Democrats, Social Democrats, Liberals, and later on also the Greens. Their platforms all converged in a collective narrative that promoted German loyalty to a common European project. The meaning of this narrative was unambiguous: Bonn would never put its strategic interests on a collision course with those of the rest of Europe, which, during the Cold War, consisted only of Western Europe. The second principle broke profoundly with the traditional German institutional framework and culture of militarism. In the new armed forces (*Bundeswehr)*, soldiers were called "citizens in uniform" (*Bürger in Uniform*), and the need to subordinate the military to civilian power was not disputed. Abuses and crimes committed inside barracks were and are still subject to adjudication of a democratic political nature. Instead of a special military court of justice, the federal parliament (*Bundestag*) maintains a commission that fulfills this purpose. Politically, militarily, and discursively, Bonn-Germany integrated itself into a democratic Western Europe poised for a further and deeper integration process.

Finally, at the deepest cultural level, Western German and European societies developed a consistent attitude, reflected in a narrative that promoted peace. This stance led to the creation of a strong civic movement in Germany in the 1980s, in the midst of the final Cold War political crisis, caused by the increased risk of nuclear warfare in central Europe. This movement, which led to mass protests throughout Germany, was a reaction to fears rooted in the deployment of USSR SS-20 and US Pershing II and cruise missiles. The hostility to warmongering became implanted in the citizenship, along with a growing environmental awareness, which is one of the highest in Europe and globally (Soromenho-Marques 1985: 19-59). No other country displays such hostility to nuclear technology, whether it be military (totally prohibited in Germany) or civilian. In 2011, following the massive Fukushima nuclear reactor leaks in Japan, Chancellor

Angela Merkel reaffirmed the decision of the former SPD-Green Party coalition government to phase out nuclear power plants in Germany within two decades.

The Years of Transition (1990-1997), under the leadership of Chancellor Helmut Kohl, were determined by an intense debate, both among the ruling elite and in public opinion at large, about future political paths. No other country in Europe had such a wide and open discussion about the new, post-Iron Curtain political architecture of Germany and Europe. The question of whether and how to implement the economic and monetary union, under the pressure of a strenuous and costly reunification and the temptations of a further Eastern European economic expansion, were particularly intense. The decision to leave the *Deutschmar*k and enter the new Maastricht Treaty monetary landscape was critical. As Bonn-Germany's profile faded, the increased strength of the new Germany was expressed without disguise in the design of a new economic and financial order: the Eurozone. In adopting the euro in 1999, Germany satisfied the French government's desire to include Berlin in a Western European monetary union, but only under German conditions, as will be explained in greater detail below.

The last period, that of the Berlin Republic, coincides with the governments of Gerhard Schröder and Angela Merkel. It is marked by huge internal and external transformations. Berlin asserted its national interests without pretense, as if it were a 'normal country' like any other modern democracy. The SPD-Green coalition refused to participate in US President George W. Bush's militaristic ventures in Iraq in 2003, with a fresh assertiveness. The neoliberal Eurozone reforms introduced by Schröder, preparing the country for more intense economic competition, went deeper and further than the Frankfurt conservative economic elite could have imagined. Germany soon became a world leader in exports, and the Eurozone market buttressed this success, but was far from its only trade partner.

After decades of political and economic consolidation in the second half of the twentieth century, which produced a large, stable market in which Germany thrived, since the first decade of the new millennium the EU has been experiencing a slow process of disintegration. Ironically, this disintegration became more visible with the eastern expansion of the

EU in 2004, which incorporated ten new countries, including Poland, Hungary, and the Baltic states. Portended by the Constitutional Treaty's failed ratification in 2005, this lack of unity was exacerbated by the international financial crisis in 2008 and the EU response, coordinated by Merkel, to the resulting, so-called "sovereign debt crisis." Further rifts can be observed in the widespread political shift toward populism and nationalism after the 2014 European Parliament elections, as well as in the financial fragmentation of individual national markets, a growing economic protectionism, fears of the waves of migrants arriving in Europe since the Syrian War began in 2011, and the Brexit process. The Berlin Republic, which seemed to have reached the peak of its might immediately after the September 2013 federal elections, was not able to choose between a federal Europe, on the one hand, and an uncertain return to a full-fledged European international system, on the other, with all the burdens of a return to the balance of power equilibrium.

The Treaty of Maastricht and the Monetary Union Debate in the Years of Transition

During the critical years of the eurozone crisis (2010-2013), Germany stood out in its refusal to mutualize the sovereign debt of the EU member states. This stand was (and still is) equivalent to expressing a frontal hostility toward a federal European solution, which in the German political discourse appears repeatedly as the refusal to participate in a 'transfer union.' Berlin has always supported the strict accountability of each Eurozone member state for its own debt. The prospect of a substantial European common budget, or budget transfers between surplus and deficit states, appeared during the different governments under Angela Merkel as an absolute, insurmountable red line[2]. Contrary to the widespread political belief that refusing such a transfer union is a permanent mantra in German economic thought, I argue that during the period of Bonn-Germany at least until the drafting

[2] The 2021 Recovery and Resilience Plans, designed under the pressure of the Covid 19 pandemic, contain the seed of a common budget. However they were conceived as a single emergency tool without affecting the fundamental rules of the Eurozone.

of the Stability and Growth Pact in the late 1990s, there was a broad – though somewhat ambiguous – consensus in Germany about the need to integrate a common European currency in a wider governance framework. This consensus on a common currency made up one side of a larger integration triangle involving two other sides: the political union and the common budget. The German political consensus was tied to the related notion that no currency could work properly without being supported by a true political union. This union, moreover, had to be rooted in a solid, overarching legal constitution, which in turn would provide sufficient democratic legitimacy for financial transfers from wealthier regions to poorer ones in case of a crisis with its inherent asymmetrical shocks.

Taking a close look at two primary contentious questions regarding the European Monetary Union (EMU) illustrates the complex history of the proposed transfer union. These two questions are: What economic and political requirements must be met in order to launch the monetary union? What would be the best prioritization and hierarchy among the three sides of the integration triangle (common currency, common budget, and political union)? At the beginning of the 1970s, the issue of whether a monetary union should be created or not had already been addressed in the first serious attempt to launch the EMU. The Werner Report (1970) is a striking example of the classical, opposing European schools of thought that coalesce around the two questions posed above. Economists on the one side support prioritizing *nominal convergence*, i.e., that a common currency should take the leading role in the integration path. On the opposite side are the economists who promote the notion of *real convergence*, which would sustain the previous demand, not only to have some level of economic similarity and harmonization among EU member states, but also to forge a politically binding solidarity before beginning to share the sovereign prerogative of cash flows. In 1970 and two decades later, with the Maastricht Treaty of 1992 that gave birth to the euro, the first school of thought prevailed. This perspective may be called "monetary voluntarism," in that it entailed a willingness to assist other EU member states voluntarily in case of economic need. However, even the Werner Report (1970: 10-11) considered that, with the deepening and consolidation of the monetary union, "the Community budget will undoubtedly be more important at the final stage than it is today." The debates that followed, to be discussed below, led to the Delors Report and the promise that future treaties would correct the failure to produce a common European budget.

The traditional line between European integration strategists was thus drawn between the 'winners' and the 'losers' of their proposed policies. The 'winners' turned out to be those who considered it wise to start the integration path by means of the common currency, which would then require new intergovernmental treaties to be drawn up at a later date (Delors Report 1998: 36-37). The 'losers,' then, were those who advocated for the priority of an economic and political union to support the monetary architecture, which would require the creation of an institution with legally binding, constitutional powers. The winning side, blinded by its voluntarism, not only ignored the historical record of other failed and successful monetary unions, but its representatives also neglected the lessons Robert Mundell had put forth in 1961 in his seminal paper on "Optimum Currency Areas." In this short but wise text, Mundell describes the risks and successful conditions of countries considering entering into a fixed exchange rate model. In a subtle way, Mundell gave prudent advice, cautioning against the energetic enthusiasm of "monetary voluntarists." He writes: "Except in areas where national sovereignty is being given up it is not feasible to support that currencies [of independent states] should be reorganized" (Mundell 1961: 664).

The Werner Project was erased by the global economic and political turbulences of the 1970s, but in 1977 a new proposal was put forth to explore the preconditions needed for a true economic and monetary union. The proposal, drafted by a team of nine experts, was named the MacDougall Report after the group's leader, Sir Donald MacDougall. The two-volume report described the enormous distance between the ambitions and the real public-finance infrastructure of the European Economic Community's nine countries. Three scenarios were presented, starting with a relatively modest "Pre-federal Integration" stage, which would require a common budget of 2-2.5% of the Community's GDP. In the middle term, there was the scenario of an "Early Stage of a Federation," supported by 5-7% of the European GDP. A final, bold

"Federal" stage would require a common public expenditure of 20-25% of the total GDP. Even in the case of the second scenario, the authors emphasized that "social and welfare services would nearly all remain at the national level" (MacDougall Report 1977: vol. I, 14). In 1977 the EEC expenditure was equivalent to 0.7% of the 9 countries' GDP combined. In 2019, amidst the critical turmoil of a stumbling Union, the EU expenditure corresponds to a still clearly insufficient 1% of the general GDP.

The final, dangerous Faustian bargain, a compromise between the French voluntarism focused on a nominal economic convergence for the EU, and the German belief in rules aiming to promote the stability of prices and fiscal discipline, was the euro's embryo of a "low-cost" monetary union, enshrined in the Maastricht Treaty in 1992. Later on, the 1997 Stability and Growth Pact enabled German rules to steer the process of implementing the monetary union. These rules do not embrace the union enthusiastically, however. Instead, they combine the grasping of a rare *Machtpolitik* opportunity – in the context of Germany's reunification and eastward influence – with a defensive skepticism regarding the effectiveness of binding together many diverse national economic landscapes under the same currency arrangement (Soromenho-Marques and Cabral, 2018b).

It is nevertheless important to recall that the prevailing narrative in German thought during the first period of its Years of Transition prioritized a political union for the EU, which in turn would enable budgetary support of the common currency. Many Germans in key positions argued that a common currency should not be the "leaven[ing]" for a political union (Werner Report 1970: 12-13), but the result of it. Three examples of the framing of this narrative are provided here, the first of which was expressed publicly by Chancellor Helmut Kohl just three months before the Maastricht Treaty was signed. Speaking to the MPs in the Bundestag, Kohl assumed a skeptical stance, stating bluntly: "Recent history, and not just that of Germany, teaches us that the idea that it would be possible to maintain an economic and monetary union in the long term without a political union is absurd" (Kohl, 1991: 4367). The second example appeared a few months after Maastricht was ratified, when the German discussion of the Economic and Monetary

Union (EMU) was also quite lively and attracted a great deal of citizen participation. A landmark in that public debate was the first of two major Manifestos, signed by 62 economists and published on 11 June 1992. Point 8 of that Manifesto, with the alarming title "A Danger for Europe," unambiguously presents the priority requirement of a political union as the basis for a common currency. Only a political union could ensure a legal, constitutional basis for upholding the financial transfers that would be unavoidable in the future, given the vast asymmetry and divergence in economic structures and performance capabilities of the countries joining the monetary union. Point 8 states:

> The economically weaker European partner states will face increased competitive pressure under a common currency, and, as a result, they will experience growing unemployment due to lower productivity and competitiveness. This will make high transfer payments in the name of "financial compensation" necessary. Because no agreement exists thus far concerning the structure of a political union, a system with sufficient democratic legitimacy to regulate this process is lacking. (Ohr et al. 1992)

Before the Berlin Republic was firmly consolidated, both friends and foes of the EMU warned that the shallow French project of a politically rootless monetary union was prone to failure. Germany demanded a political union as the prerequisite for the necessary budget transfers inherent to a federal polity. Finally, even Hans Tietmeyer, the strong Bundesbank President from 1993 to 1999, saw in the Maastricht project the real danger of the absence of an "adequate political framework," which would trigger the social suffering of internal devaluations (Tietmeyer 1994: 26-29).

During the Years of Transition, many German intellectuals anticipated the risks that observers had also identified outside of Germany, even the risk of conflict and war (Feldstein 1997). However, the enactment of the Stability and Growth Pact – comprising one European Council Resolution (17 June 1997) and two Council Regulations (1466/97 and 1467/97, both from 7 July 1997) – implied that Germany had reached a final decision. The common currency would become a reality, not as a federal currency, but instead resembling a revival of the gold standard rules. A kind of renewed and stricter European Exchange Rate Mechanism (ERM) was set up on June 16, 1997, with no room for financial transfers between countries. The euro was born 18 months later without a common treasury or political union.

To further aggravate the fragility of the new European Monetary Union, no provision was provided to control the activities of commercial banks and the rest of the financial system. Economic cooperation among the Eurozone countries, moreover, was left entirely to the discretion of individual governments and thus had no binding force. On 9 February 1998, another Manifesto, signed by more than 160 German economists, was published under the title "The Euro is coming too soon" ("Der Euro kommt zu früh"). This reasonable proposal sought to gain more time for real economic convergence. However, the mood in Germany and the EU was shifting. As the Berlin Republic became more solidified politically and economically, prudence was deemed less necessary (Kösters et al. 1998; Soromenho-Marques and Cabral 2018b).

The Painful 'Neoliberal Modernization' under Gerhard Schröder

The 1998-2005 German coalition government of the SPD and the Greens, led by Chancellor Gerhard Schröder, undoubtedly represents a bitter and paradoxical irony in recent history. Today it is hard to determine which political family Schröder truly belonged to, because the greatest praise for his deeds came from conservative parties at home and abroad. The presence of Joschka Fischer of the Greens, as Vice Chancellor and Minister of Foreign Affairs, did not mitigate what is recognized as a neoliberal course of action in the realms of economics and social welfare. At the close of the twentieth century, Fischer proclaimed, both in a book and in numerous public speeches, the goal of European federalism and a new social contract, able to protect the environment and economic and social rights. He wrote without ambiguity that the future of Europe and Germany would be decided between two rival models of modernization: either "neoliberal modernization" or "social and ecological modernization." Fischer asserted himself as the intrepid defender of this second route (Fischer 2000: 269). However, Schröder, who was much closer to Tony Blair than to his deputy chancellor, took the reins, steering the economy in the opposite direction. He implemented a new, neoliberal social contract that essentially fulfilled the desires of the German financial and manufacturing industries. He limited workers' rights and their income share in the GDP; increased social inequality; and developed the German export industry based on a strictly national logic, without much regard for the systemic, negative economic consequences of his choices on Germany's Eurozone partners.

The neoliberal path that Schröder took to prepare Germany to enter fully into the EMU was a drastic decision. His recipe was clear: reduce public spending, depress domestic demand, reduce labor costs, and focus on expanding German export markets. The radical medicine of "the sick man in Europe"—as Germany was referred to at the start of the twenty-first century by the Anglo-Saxon press—was slated to become a European trademark after 2008 ("Wunderreform" 2013). Schröder's 'modernization' efforts can be summarized as follows: 1) between 1997 and the year 2000, public expenditures contracted from 48.4% to 45.1% of the GDP; 2) domestic demand, which accounted for one third of the GDP in 1997, fell to 25% in 2005; 3) a then current account deficit of 0.8% of GDP in 1998 was transformed into an account surplus of 6.5% of GDP in 2006, or €150 billion (such large and recurring account surpluses became the German norm, despite their negative impact on the stability of the EMU as a whole); 4) the Hartz Laws (from I to IV), included in a neoliberal program called Agenda 2010, aimed at inducing "structural reforms" and "making the labor market more flexible" (in a country that did not introduce a minimum wage until 2014). Millions of temporary, low-paid jobs (called "Minijobs" or "Ein-Euro-Jobs") were created; 5) in social security, the Riester Plan was adopted, which partially privatized the pension system (since the 2008 financial crash, many retirement plans have seen their incomes fall dramatically, resulting in a still-unsolved serious problem of low-income seniors); 6) the greatest success was in exports. Not only did their share of the GDP grow significantly, but Germany also began exporting more heavily to the world market due to the solid momentum of emerging economies outside Europe. This policy was continued by Angela Merkel, and the results are impressive. In 1995, exports were worth 23.7% of the GDP; in 2012 they were already worth 51.9%. Exports outside the EU increased from 8.5% of the GDP in 1995 to 27% in 2012 (Duval 2013: 194-199).

The social costs of the 'success' of Schröder's reforms were, however, immense. In 2006, for the first time since reliable records have been kept, Germany outnumbered France in terms of social inequality. In Germany in the year 2006, the richest 10% had a 7.1-fold income in relation to the poorest 10%, as compared with a level of only 5.3 times more in 1997. In France, the path was the opposite: inequality fell from 7.7 to 6.1 times between 1997 and 2006 (Sinn 2000; Wilke 2003: 1-21; Duval 2012: 161-174; Hagen and Kleinlein 2012: 3-14). One detail not to be forgotten is that, in pursuing his downsizing of social reforms and thereby enhancing Germany's economic might, Schröder, in alliance with French President Jacques Chirac and Italian Prime Minister Silvio Berlusconi, continuously broke the rules of the Stability and Growth Pact. Where political will reigns alone at the top, legal norms are tools that may easily be broken or set aside (Proissl 2012: 12-17).

The Rise of 'German Europe' and the Meaning of 'Defensive Hegemony'

In 2008 the financial crisis blow struck the financial system hard and impacted the entire German economy. The federal government was forced to increase public debt (a rise of 17.3 percentage points from 2007 to 2010) to inject money into banks, whose irresponsible behavior had included investing the equivalent of 20% of the German GDP in US toxic products and real-estate bubbles in Ireland, Spain, and Greece (Wolf 2010). The contraction of imports from traditional German customers, including China, led to a 5% drop in the German GDP in 2009, the worst performance there since 1932. Jobs were maintained, however, because of the culture and legislation of co-management (*Mitbestimmung*) that still reigns today in the German industrial sector, and thanks to generous industrial subventions from the federal government. At the end of 2009, Merkel was confronted with a population that was tired of sacrifices and shaken by constant government demands since reunification, such as the requirement for all citizens to pay a solidarity tax to fund infrastructure improvements in eastern Germany. The government was also under pressure from domestic bankers, who were starting to anticipate greater losses if Greece went bankrupt.

The first reading of the causes of the 2008 financial crisis, both in Germany and the EU, blamed the greed of bankers and financial speculators, and specifically the neoliberal brand of capitalism. The Conclusions of the European Council meeting in December 2008 started in a strongly Keynesian manner, praising the new €200 billion European Economic Recovery Plan, equivalent to 1.5% of the EU GDP (European Council 2008). Just two months earlier, in October 2008, the large German trade union IG-Metall had considered it realistic to propose an 8% salary hike to "strengthen domestic demand" (Kiess 2015: 41). The crisis exposed the faulty structures in the EMU: it revealed the total ineptitude of the Treaty on the Functioning of the European Union (TFEU) – specifically, its three main articles (123, 125 and 127) – to deal with an existential threat to the EU such as that posed by the global financial crisis. The "no bail-out" article (125) made it illegal to provide any financial support to countries under asymmetric pressure. On the other hand, the hemiplegic nature of the European Central Bank (ECB), which had been created primarily to maintain price stability (article 127), prevented it from bolstering EU member states' treasuries or private banking systems (article 123). No wonder that, in the first year of the crisis, the biggest lender to European private banks was the American Federal Reserve (Tooze 2018: 205-208).

2009 was a terrible year for the European Union. The drop in exports, and public spending increases to rescue banks, seemed far from being under control. Echoing the widespread feeling of insecurity, a key decision of the German Constitutional Court, linked to the debate on the ratification of the Treaty of Lisbon, transformed the Bundestag into the sole German institutional driver of European integration. In practical terms, it ruled against the possibility of any national budget transfer within the realm of the EU without explicit authorization from the Bundestag (Bundesverfassungsgericht, Urteil vom 30. Juni 2009; Bothe 2009; Steinbach 2010: 367-390). By the end of the year, however, there was a quick turnaround in the prevailing crisis narrative. A newly elected Greek government announced a much larger deficit for 2009 than that which the former government had previously presented to the European Commission. This information was given in hopes that telling the truth would elicit a deserved solidarity from Greece's European partners. But Merkel and the German Minister of Finance, Wolfgang Schäuble, repeatedly voiced an extremely harsh position regarding the Greek public financial state of affairs – a well-known fact that had been tolerated until the crisis struck – and its excessive spending. The belief that Merkel and Schäuble would maintain their position, and that the EU would henceforth not come to Greece's rescue, led to a crisis in confidence in the Monetary Union. In 2010, a panic thus started to spread in the debt markets, and rating agencies downgraded Greek bonds.

After months of refusal to assist the Greeks – which demonstrated to investors that the Eurozone was not the embryo of a federation, but just a club of partners and rivals competing for the best loans – Germany finally agreed to work around the deleterious "no bail-out" Article 125 (TFEU). In May 2010, Germany gave the green light to a severe troika program for Greece, which, according to former Bundesbank president, Karl-Otto Pöhl (2010), was essentially aimed at rescuing wealthy Greeks and the German and French banks that were the main creditors of the Greek government. Within a few months, a marvel of manipulation and marketing took place. A crisis that had started as evidence of the damage inflicted on the European economic and social fabric by global neoliberalism – centered in a financial capitalism that forced every EU country to increase their public debt burden an average of 21.1 percentage points (from 58.9% to 80%) in order to save their banks and avoid economic collapse – was transformed into the "sovereign debt crisis" of a few "laggard" Eurozone countries. The scapegoat for the crisis shifted quickly in the public narrative, as if it had been an organized plan, from the unscrupulous banker to the lazy Greek gardener (Bieling 2013: 320; Kiess 2015: 29).

From 2010 until the 2013 federal elections, Germany ruled as a hegemon over the destiny of Europe. In 2011, with the support of France ranging from tacit to explicit, Berlin's financial policies led to changes in leadership in the Greek and Italian governments, imposing a new legal order that transformed the principles of ordo-liberalism into a pan-

European mantra. This austerity culture, already present in the Stability and Growth Pact, expanded greatly with the new set of regulations that expressed German supremacy. Instead of abiding by the Lisbon Treaty, a new "European Constitution" was formed by the Six-Pack, the Two-Pack, and two major new institutions: the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (commonly known as the "Fiscal Compact") and the Treaty Establishing the European Stability Mechanism. These two interconnected treaties continue to be followed as an austerity guidebook for the ruling factions in Brussels, Berlin, and Frankfurt. Because they are intergovernmental treaties, they were not subject to participatory scrutiny by the voting populace. The Banking Union plan, also initiated by the EU in 2012 as a response to the Eurozone Crisis, is furthermore having strong impacts on the legal and financial structures of several EU countries. The plan took away their former competences in the resolution of bank crises, without offering a European financial compensation guarantee. Overall, the current fragmented legal structure of the EU and the Eurozone might best be compared with Ptolemy's futile attempts to compensate for second-century astronomy's fundamental erroneous belief, that the Earth was the center of the solar system, by multiplying geometric spheres and fanciful epicycles and equants to explain planetary motion (Soromenho-Marques 2016: 9-10).

From 2014 to 2018, under Merkel's leadership, Germany reached the peak of its 'unipolar moment' and thereafter started to lose influence. This weakening was due to the first major success of far-right and populist European parties in the May 2014 European Parliament elections, and above all to the lack of public German support for her response to the 2015 refugee crisis (Nünlist 2014; Brattberg and Lima 2015). Externally, Schäuble's hubris in the fight against the left-wing Greek Syriza government in July 2015 eroded what was left of Germany's soft-power reputation. As Joschka Fischer (2015) wrote, the "ugly German" had returned.

Once again, over the past decade there has been neither unanimous support for, nor relative consensus on, the political course of German leadership. Even in the inner circle of power, we may identify a disagreement between the Chancellor and the Bundesbank president, Jens Weidmann, in appraising Mario Draghi's leadership of the ECB, which was vital to avoiding a premature implosion of the Eurozone (Sinn 2014). Helmut Schmidt, who served as German Chancellor from 1974-1982, spoke out several times in opposition to Berlin's austerity policies following the Eurozone crisis. A few months before his death in November 2015, Schmidt (2015) compared the Eurozone's history with that of Germany: "Those who believe that Europe can recover solely by making budgetary savings should take a close look at the fateful effect of Heinrich Brüning's deflationary policy in 1930/32. It triggered a depression and intolerable levels of unemployment, thus paving the way for the demise of the first German democracy." The prominent philosopher and sociologist Jürgen Habermas (2018) also continues to criticize Berlin's policies, blaming the "nerve" (*Chutzpah*) of the German government, always prepared to cooperate with EU partners only in matters that fit its own agenda, ignoring other issues, such as the need to reform the EMU to benefit all EU countries. Some disagreement can furthermore be noticed in key opinions expressed by the German Council of Economic Experts regarding German management of the euro crisis. In the 2011/12 Report a suggestion was made, but vehemently declined, to introduce Eurobonds to face the debt burden of the entire Eurozone. An analogy was made to the solution designed in 1790/91 by Alexander Hamilton to solve the debt incurred by the thirteen former American colonies during the American War of Independence, openly using the federal tools granted by the novel US Constitution drafted in Philadelphia in 1787 (Sachverständigenrat, Jahresgutachten 2011/12: 112-136). It is important to note that in the 2014/15 Report, the Council pointed out the need to lower the "high current account surplus" (*Leistungsbilanzüberschuss*), not just for the sake of Europe but also in the interest of Germany. It would be difficult to find a more powerful negative judgment of Berlin's macroeconomic policies than this blunt statement made by the Council: "Germany is increasingly incapable and/or unwilling to transform savings into material wealth (***Ersparnisse in Sachvermögen zu transformieren***; bold in original) (Sachverständigenrat, Jahresgutachten 2014/15: 258).

We owe the concept of "German Europe" (as opposed to a "European Germany," advocated by Thomas Mann in a 1953 speech) to the late Ulrich Beck (1944-2015). Beck revealed in his writings "the blindness of economics," the autonomous, self-referential "Newspeak" that makes social, historical, and ethical considerations disappear. This narrow perspective on the world's complexity becomes, as Michel Foucault (2004: 86) anticipated it in 1979, a source of order and legality, a new way to create sovereignty. Beck's (2012: 18-20; 45-58) refined analysis, however, mirrored in the chapter "Merkiavelli: Hesitation as a Taming Tactic," explains the singularity of this new form of German hegemony. The essence of Beck's interpretation of Merkel's leadership is never to take the initiative too soon, and always to refuse any kind of voluntarism. *Carpe diem*: take the profits of today's competitive advantage over your neighbors and partners. Ignore the discourse about long-term strategic goals if you wish to maintain your freedom to maneuver. Wait for the moment when a small step can prevent collapse in the follow-up of a never-ending economic suffering. A crisis should not be solved, only managed.

In reacting to the financial crisis and its widespread effects on EU countries, German hegemony can thus be considered a *defensive hegemony*. The German government managed its citizens' expectations as if Germany had no responsibilities to its Eurozone partners. It acted as if these partners were mere guests in a Eurozone increasingly resembling an extended Deutsche Mark currency zone under a new brand. Given its large size and economic weight, Germany at least in part made its decisions keeping in mind that it would always be looked upon with suspicion. If it took the initiative of widespread reform, it would be criticized by those who fear any major German move. It is nonetheless deplorable that the Germans stubbornly vetoed, and continue to block, even the smallest reforms needing to be implemented on behalf of the EU's survival and robustness. If it had displayed greater wisdom in its 2010-2014 policies, Germany could have arrived at its finest historical hour. Leading the overcoming of the euro crisis, Germany could have replicated the period of 'benign hegemony' that the US presided over after 1945. It could have guided Europe to a safe, new institutional and constitutional framework of a stronger federal nature. Instead, Germany clung to the remnants of EMU orthodoxy, while strengthening and upgrading its rules to the status of a quasi-Constitution.

Conclusion: The Uncertain Future of the European Union Remains Open

Seen from the outside, the EU may appear to be crumbling. The results of the May 2019 European Parliament elections provide evidence of a growing fragmentation of the political spectrum. This fragmentation increases the complexity of shaping a shared strategic path that reduces the risk of implosion. The Berlin-Paris Axis resembles a shadow of a body that never took shape in flesh and bone: Merkel is crossing the line between power and memory, and French president Emmanuel Macron, who started energetically introducing proposals for reforming the Eurozone, was both unable to match the "Merkiavellian" way of postponing even small changes and rather clumsy in his ways of communicating with the French populace. Thus, Macron's hopes and declarations were, for the most part, dashed (Macron 2017; Centre for Economic Policy Research 2018; Cabral and Soromenho-Marques 2018). The EU is currently dilacerated by centrifugal forces. Political sub-alliances – such as between the politically conservative countries of Hungary and the other Visegrad members (Poland, Czech Republic, Slovakia), or the heterogeneous 'Hanseatic League' coalition of 12 countries led by Prime Minister Mark Rutte of the Netherlands, formed against the 2018 Meseberg declaration – are contributing to this growing perception of European fragmentation. In the euro countries, there is always an annual conflict with Brussels concerning government deficit amounts. In 2016, Portugal was the target. In 2018, under its newly elected populist government, it was Italy's turn to be in the spotlight. France will likely be next, if the social unrest of the *movement des gilets jaunes* (yellow vests movement) does not confound expectations (Presse- und Informationsamt der Bundesregierung 2018; Soromenho-Marques and Cabral 2018a).

Although the Eurozone crisis was not fully resolved in 2014, and the long European Autumn has persisted, an EU collapse does not seem inevitable today. Under Draghi's leadership the European Central Bank – the institution seemingly embodying Friedrich Hayek's (2003: 148) concept of a central bank in which "the issue of money is taken from government" – implemented a monetary policy that compensated for the permanent German veto regarding the creation of a true European budget capacity and allowed for some fiscal coordination among countries to enable common investments (see also Weidmann 2017). Nevertheless, the current mediocre recovery is far from rosy for workers and young people suffering from growing inequality and job shortages. In 2008, the major German euro architect, Otmar Issing (2008: 231), considered the idea of implementing a "European social model" as going "against the laws of the market." If we have learned anything from the crisis today, and if the Eurozone is to survive, we need to reconnect our economic fabric with the currently slumbering promise of a social Europe (Piasna 2017; Höpner 2018; De Angelis 2018; Schweiger 2019).

Under Merkel, the Berlin Republic has failed to uphold an effective, inclusive narrative able to abide by the hopeful, mobilizing code of conduct advocated by Willy Brandt in 1989 as the desirable post-wall behavior for Germany. To the contrary, she erected a barrier between Germany's short-term economic interests and its political duties to Europe. This policy course resulted in the creation of a disciplinary economic and financial leadership narrative that stripped away the fundamental elements of a true, benign guidance that would emphasize a shared struggle in which sacrifices are justified not just by sheer necessity, but also by the prospect of a better and fairer future. If the "Merkiavelli" style remains after Merkel's departure, the time will come when Germany will be forced out of the bunker of its narrow interests, hidden behind the unsustainable rules of the EMU. But by then, it may be too late to reform and save the European Union, and also too late to preserve Germany's permanent interests. We are dwelling in times of uncertainty. No one can tell now if "the frame of existing and developing institutions" will be able to innovate in order to accommodate pan-European economic and social conflicts in an orderly manner, promoting stronger and better integration, instead of sowing distrust and disintegration (Voruba 2015: 19-21). On the one hand, the defeat in the European Parliament of the European Council's attempt to bring the Fiscal Compact to the core of EU framework legislation is an auspicious sign that history is not already written (ECON 2018). On the other hand, the new team of high officers picked by the June 2019 European Council to lead the EU institutions in the coming five years appears unqualified to solve the EMU's structural flaws and the widespread, monumental threats lying ahead, from climate change to trade to geostrategic military challenges.

The Hamlet question about life or death for the European common polity will depend on its capacity to find reasonable and sustainable sources of hope. New actors and new alliances, able to plant this hope on solid ground, are needed. Until now, fear remains the strongest glue binding Europeans together (Offe 2016: 151). The herculean ways the Greeks fought to stay in the Eurozone, for example, by implementing massive budget and salary cuts, are a good example of the cohesive strength that fear can mobilize. The United Kingdom's immersion in an unwise, self-inflicted political pain process to exit the EU also serves as a dramatic experiment showing how deeply interconnected and interdependent Europe and the Europeans are. With the demise of the ephemeral "German Europe," the hegemonic trend in European history to succumb to the weight of its perpetual, internal self-destructiveness may reemerge. But the door may also be open for a revival of a shared European sovereignty, as a goal to achieve and cherish. The renewal of the European project is waiting, not only for humble cooperating countries but also for citizens and civic organizations from every European country united by a common narrative able to set political goals ahead of market determinism. Their rejuvenated, collective impetus could rescue our common future away from the abyss of entropy and its temptations.

Post-Scriptum: Germany and the EU Economic Order in and after the COVID-19 Global Pandemic Crisis

When we think of narratives in the realm of the political sphere, we must never forget that they are not insensitive to reality shocks. In such cases, narratives share with "paradigms," in the sense that Thomas S. Kuhn (1962: 2) gave them, the capacity to deal with problems. In this chapter I strove to show that the predominant narrative in German discourses and public policies – an extended version of ordoliberalism – has not excluded the existence of alternative voices. In my conclusion, I stressed that the advent of a new economic crisis could be the propitious occasion to find out if these alternatives could become the basis of new policies capable of saving the EU from its growing route of fragmentation. This hypothetical occasion has arrived on a global scale, continues to unfold, and will bear consequences that no one can anticipate accurately.

Not only is the crisis caused by the COVID-19 pandemic, that started in 2020, of a magnitude far greater than that of the 2008-2013 financial and euro crisis, but the German response is also proving much faster and more vigorous, both domestically and at the European level. The Bundesbank (2020) estimates for 2020 a decline in the German GDP of -7.1%. The ECB estimates a drop in the EU GDP of -8.7%, while no one knows if and when there will be a second wave of COVID-19, or, eventually, even a new zoonosis outbreak with pandemic potential. The domino effects of the degradation of our economic and social fabric are far from being assessed correctly.

The ordoliberalism that Germany imposed on the EU, as it dangerously became the 'winner' of the euro crisis, was quickly replaced by state interventionism – not that of Keynes (rehearsed by Merkel in response to the 2008 crisis), but more like that proposed by Friedrich List (1841: 199-209, who, before Germany existed as a state, fought for its right to use protectionist economic policies against the overwhelming weight of imperial British liberalism. The German domestic answer to the pandemic crisis is overwhelming. The €130 billion of the stimulus package Berlin announced in June 2020 join the already planned €353 billion in emergency aid and the €820 billion in state loan guarantees amounting to €1.3 trillion allocated by Germany for its own national coronavirus relief (German GDP 2019: €3.44 trillion) (*Financial Times* Editorial Board 2020). Half of the state aid approved by the European Commission to the 27 EU member states so far is 'made in Germany.' Even German public debt, which stood at 59.8% of its GDP in 2019 (after peaking at 82.4% in 2010), will rise to 75% by the end of the year (Deutsche Bundesbank 2020).

Although on May 5, 2020 the German Constitutional Court set off alarms in the markets, with its judgment calling into question the ECB's Public Sector Purchase Program policy, initiated by the ECB in 2015 (Bundesverfassungsgericht 2020), the truth is that this judgment should have provoked dissent throughout Germany. The most enlightened, mature reaction to this judgment—which threatens to block the ECB's program to acquire public debt on the secondary market, breaking the only monetary device for correcting economic asymmetries in the Eurozone – came perhaps surprisingly from the President of the German Supreme Court of Justice (*Bundesgerichtshof*), Peter Meier-Beck (2020).

Merkel, by contrast, has expressed support for the ECB's measures (ushered in by the current President of the ECB, Christine Lagarde) to help member states in fighting the COVID pandemic's negative impacts by ensuring low interest rates on their public debt. She has moreover encouraged Ursula von der Leyen (the former minister and current President of the European Commission), in agreement with French President Emmanuel Macron, to defend a reinforced €750 billion EU Recovery Plan proposal to combat the pandemic. Having started its Presidency of the European Union on 1 July 2020, Merkel's Germany has positive conditions that can serve to overcome the voices of the 'frugal four' countries (the Netherlands, Austria, Denmark, and Sweden) that oppose a budget that, while not federal, is certainly the most generous in the EU and Eurozone history (European Commission 2020).

It is important to recognize, however, that the rules of European ordoliberalism have not been abolished, but only suspended. The new Eurozone governance building remains to be built, and its timeframe cannot be predicted with confidence. For the time being, the proposed solidarity measures are not only temporary, having been planned for a period of three years, but also resulted from the rejection of a model to pool public debt expressly by creating 'coronabonds' (eurobonds to protect against the COVID-19 pandemic). Chancellor Merkel's announced departure from government responsibilities after the federal elections in September 2021 add a bit more of uncertainty to the future scenarios of the EU. For those who would not like to see the European Union collapse, the current situation is promising, if not ideal. More than ever, the future of the European integration project will depend on a new German economic and political narrative that goes beyond the decade of German Europe toward achieving the peaceful, cosmopolitan ambition of a European Germany.

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