

By Markus A. Will

The “€-question” – hardly a dinner party conversation in Europe – has gone by in recent weeks without the biggest of big questions coming up: the future of the euro. People are wondering about the future of the euro, particularly in Germany. Not only is the unthinkable now being thought, it is in fact being said out loud. What would happen if the euro collapsed, if the Greek domino knocked down its Italian neighbor, and that the French one? Would Germany be the last man standing? At that point, the economic rescue plans would not be worth the paper they are printed on.

The answer to this “€-question” has both an economic and a political aspect. From an economic point of view, the future of the euro is highly problematic. Many eurozone countries have incurred much too high a debt to allow any restructuring to be implemented successfully with the euro and without forgiving debt. The “normal” procedure of devaluing the domestic currency in order to reduce debt is out of the question, as is any national inflation policy. In other words, addressing the matter in economic terms is scarcely feasible, and so the answer to the “euro question” has to be a political one.

Peace Project

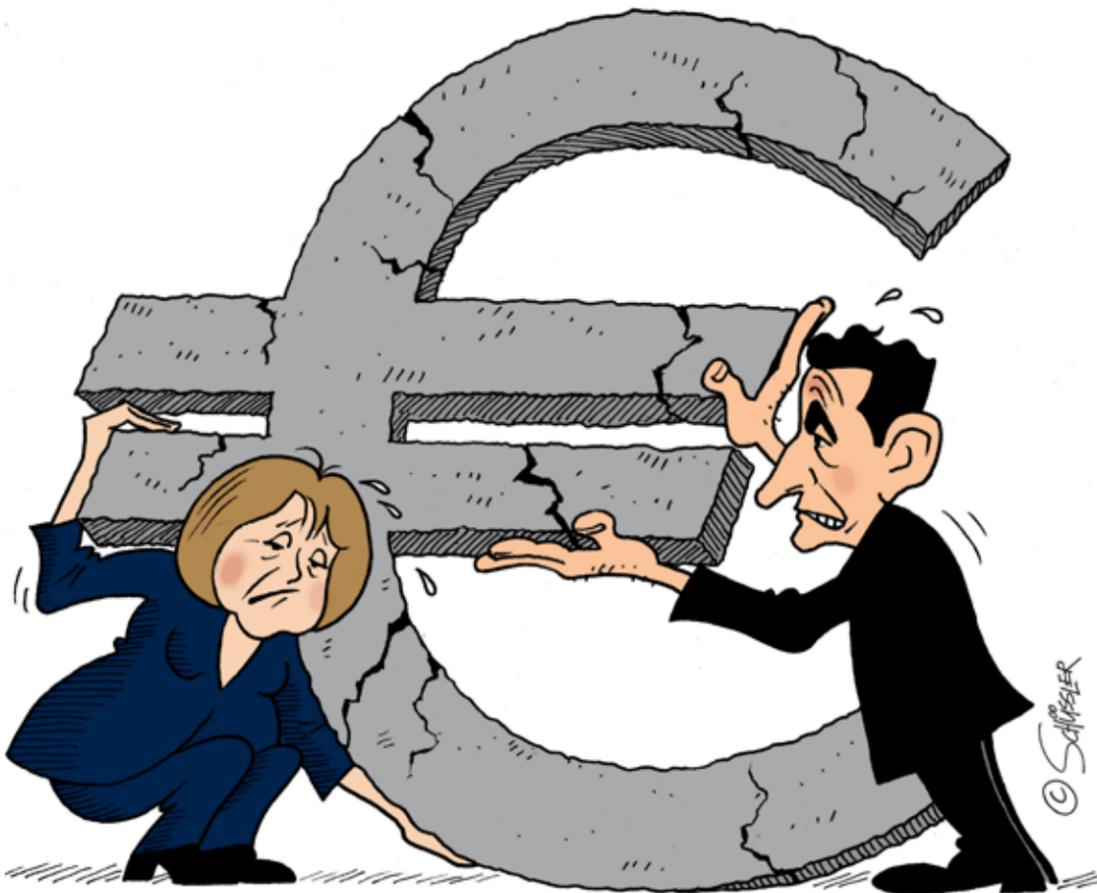
However, in political terms the matter of saving the single currency is a question of will. Can the “euro peace project” (as the French President Nicolas Sarkozy called it) be saved by reorganizing the European Union such that individual states can be rescued by a long restructuring process? Will the EU succeed in “disciplining” Italy, for example, which has debts of 1.9 trillion euros (120% of its GDP), so that investors will reschedule over 300 billion euros of the country’s debt in 2012? In January of 2012 alone, Italy must raise 30 billion euros in order to service old debt.

Both those in the know and laymen are arguing about whether political measures can counter this “economic domino theory.” But they do agree about one thing: you cannot completely rule out anything these days. Whether the EU frays at the edges or the core of the eurozone collapses, both are now considered possibilities.

When asked recently if the euro could collapse, a very well-known, level-headed German economist considered the probability remote, about 1 in 5. When asked what he would do if it did happen, the professor said he was happy that his family owned some forest land and that they all still had fireplaces in their homes. This was a metaphorical way of saying that he was preparing himself for a barter economy, at least for a time. This is strong stuff, but you do hear sober-minded citizens saying that they are trying to buy real estate, and not just in isolated cases.

The Euro Question

German Pundits are Talking About the Unthinkable: Could the Common Currency Collapse?



If the euro were to collapse, it would be a catastrophe, and, for the longest time, it wasn’t considered even a remote possibility. Since, however, it has become a distinct possibility, both German Chancellor Angela Merkel and French President Nicolas Sarkozy have, after some initial hesitation, begun all they can to prevent such an event. While they are “disciplining” the other EU member states, it must be said that when it comes to debt they are only the one-eyed leading the blind. Despite all the respect Germany gets, it is still somewhat of a stretch to think that any other European country would allow itself to be ‘disciplined’ by Germany, by the largest, strongest economy on the continent. Merkel alone is a non-starter – it has to be the ‘team Merkel-Sarkozy’ – sometimes called Merkozy – to get the message across.

While the “€-question” is being discussed in the media, no-one in Berlin or Paris is saying anything official, nor is anyone at the Eu-

ropean Central Bank (ECB) or the Bundesbank. This is quite right, as it would probably destroy confidence in the euro for good. Preventing this is the epochal joint responsibility of Merkel and Sarkozy, for the governments and for the two big bankers, Mario Draghi, the new head of the ECB, who has been described as an “Italian Prussian”, and Jens Weidmann, head of the Bundesbank, (since 2010) whom the German edition of the Financial Times called, appropriately enough in English, as “the voice of Germany.” All the other European heads of state, government and central banks, in particular the British, are less important.

Reshape the EU

Merkel and Sarkozy are attempting to reshape the EU and make it more than just a fiscal union; their aim is to create a political union. At the EU summit in December of 2011 they managed to move matters quite a lot, but they

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are far from achieving their goal of a fiscal union, since the European Commission has intervention rights.

Both Merkel and Sarkozy are fortunate in having the skilled Weidmann at the head of the Bundesbank. It was he who, at the summit steered the deliberations in the direction of fiscal union. Weidmann was once advisor to the Chancellor. He said that the decisions reached at the summit represented progress and a “fiscal pact,” but not a proper fiscal union. For him, then, there is no basis for single sovereign securities, the eurobond. Hardly any expression of opinion attracts more attention after such summits than that of the Bundesbank President. In more respects than one, Weidmann is the second most important actor after the Italian Draghi.

Question of Confidence

But what would happen if it all went wrong? An initial indicator of the plans’ having failed would be inflation, and we can only speculate how far-reaching that will be. The economy would slowly lose its lifeblood. It would be as if the body could not absorb enough oxygen, even by breathing faster and faster. The end would be inevitable. A total loss of confidence in the euro would mean the end for the economy, perhaps triggered by very high inflation, or perhaps by a series of departures from the euro, or perhaps by a return to the deutschmark, for which many Germans have been longing. Economics involves psychology and a good measure of trust that everything will work out somehow. If people lost their faith, then indeed the time would come at which they would start to exchange goods for goods instead of money, as in times of war and crisis.

Compared to a complete loss of confidence in the euro, the Lehman Brothers bankruptcy in 2008 would be no more than a footnote in the history books. All the “eurosceptics” and “deutschmark mourners” should consider this and choose their words carefully. Nothing is harder to regain than trust that has been lost, regardless of whether it is a new currency, or a northern euro and a southern euro, that you decide on as the solution, and a new deutschmark will certainly not be the way to achieve that, either. Basically, all confidence in the state would be lost in such a scenario, and the potential consequences are such that you do not want to write them down, not even in the conditional.

But to get back from the worst case scenario to current reality, it is not yet too late for a political solution. Actually, it is incomprehensible that responsible politicians and central bankers have allowed matters to slide out of control in this way. Merkel and Sarkozy have it in their power to lead Europe into a new age. ■

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