

Death of *the* (German) Euro

*Kohl giveth, and
Merkel taketh away.*

BY KLAUS C. ENGELEN

For the generation of Germans characterized by European Community President Jacques Delors in 1992 with the words, “Not all Germans believe in God, but they all believe in the Bundesbank,” a sense of “Götterdämmerung” has pervaded the air during the past few weeks. The threat of Greek bankruptcy has escalated into a full-blown financial crisis, severely damaging the public’s confidence and trust in the single European currency—the euro—and in the European Central Bank, the Bundesbank’s successor institution. Europe faces a twilight of the gods, indeed.

The death notice cover of *Wirtschaftswoche*, Germany’s business weekly, captures the worries of important segments of the German population. The notice reads, “The Euro. Kohl gave it, Merkel took it. We say goodbye to a stable currency, anchored in solid fiscal policy,” and is signed by the German Federal Republic and its taxpayers.

But those bemoaning the death of the euro are essentially reacting to the burial of the single European currency modeled as a “German euro,” which the Germans thought to have secured forever by the “no bail-out” clause in the Maastricht Treaty of 1992 and by the Stability and Growth Pact, the agreement between the sixteen members of the European Union that take part in the eurozone. The “no bail-out” clause forbids the European Union or any of its members to “be liable for or assume the commitments of” another EU country.

The Greek crisis is a defining moment for the eurozone. We can be sure about one thing: Europe’s politicians, central bankers, and EU bureaucrats are meeting reality. They are now victims of their own failures and misdeeds, with considerable

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collateral damage to the foundations of monetary union. No longer can they have their cake and eat it, too.

Europe's future recently hung in the balance after the most turbulent week in the history of the union. The eurozone was spared at the eleventh hour from outright collapse, but the credibility of its key institutions was left in tatters. There was a painful awakening from years of complacency, ignorance, and long-held unrealistic notions about the resilience and invulnerability of European monetary union and its member countries. For the past decade, essential deficiencies in the institutional framework and the implementation of governance rules have been disguised by extraordinarily low risk premiums in the eurozone, which led to the illusion that there was no need anymore to take into account "country risk" when investing in the euro sovereign debt asset class.

For Germany—with its traditional monetary stability culture—this amounts to a capitulation, considering the political effort that was invested into assuring that the European Central Bank would be modeled after the Bundesbank.

The capitulation was made, by coincidence, in the waning hours of May 9, 2010, exactly sixty-five years after Germany surrendered to the Soviet Union in World War II, an event that German Chancellor Angela Merkel celebrated as guest of honor in Moscow.

Chancellor Merkel, whose bungling allowed the long-smoldering Greek sovereign debt crisis to flare into a serious threat to the survival of monetary union, is seen with a mixture of bewilderment, angst, and anger among some of Germany's EU partners. This is because when it comes to defending the stability of the euro and the cohesion of the European Union, the German government holds the key. And a German chancellor who held off on making urgent support decisions until after the May 9 state elections in North Rhine-Westphalia (which her CDU party lost) may have done a lot of damage to Europe in a world of ever-more powerful and dangerous financial markets.

But the big story behind the Greek situation is not about short-term debt management tactics, but about loss allocation and the stability of the financial system going forward. Achim Dübhel, a Berlin-based financial market consultant, argues that the Greek case means yet another round in the



The headline and cover of a recent German magazine.

spiral of the bail-out economy which will benefit private interests while threatening public solvency. "It is unacceptable that politicians for the second time in two years nationalize or supra-nationalize all historic private exposure—before to risky banks, now to risky sovereigns. A sustainable position would be to haircut the old debt and recapitalize or unwind the banks to address solvency, while guaranteeing the new debt to restore liquidity. This was the successful strategy adopted during the debt crisis of developing countries in the 1980s. Programs like the ECB's sovereign debt purchase program as well as ECB's huge exposures towards southern European bank risk do precisely the opposite. They randomly allocate historic losses to the remainder of the eurozone while keeping investors in the dark about whether they will get repaid. This undermines the credi-

bility of both the currency and the political system in general. This is what you might call the European version of the 'Greenspan put', where for many years, very low dollar interest rates allowed investors to take any risks and make a lot of money, knowing their central bank, Greenspan's Federal Reserve, would bail them out."

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SEEDS OF A CRISIS

Beginning in October of last year, the newly elected Greek socialist government revised the estimate of its budget deficit from 6.7 percent of GDP to 12.7 percent, causing Greece's credibility in financial markets to plummet. In April 2010, Eurostat, the European Union's statistical agency, put Greece's deficit even higher, at 13.6 percent. The international investor base in Greek sovereign bonds and treasuries became increasingly nervous, and the rating agencies reacted with downgrades. Doubts spread about Greece's ability to repay its maturing debt obligations, estimated at €54 billion, and the specter of Greece's debt reaching about 150 percent of GDP ignited speculation on the need for restructuring all or part of Greece's outstanding sovereign bond obligations, or worse, the first full-blown default of a eurozone debtor country.

After the situation smoldered for months without political agreement on a rescue mission, on April 20, 2010, the economists of Royal Bank of Scotland, a bank that the U.K. government rescued from bankruptcy, sent out an unhelpful message: "Europe risks biggest coordination failure in modern history." And pointing to eurozone governments, in particular to Germany as the financially strongest country in the eurozone and key to any major emergency financing package, they saw "communication and coordination failures at the core of current crisis, the extent of contagion now such that the backstop to Greece is becoming a sideshow. Europe needs to respond to the financial markets' wake-up call."

As it turned out, Europe's politicians first put together a huge "support mechanism" for Greece, worth about €110 billion, including resources of the International Monetary Fund for about one-third of the credit support. This amounted to three times the level discussed a few weeks earlier.

Only days later, in order to fight contagion that was spreading to other highly indebted euro members, the same European leaders soon had to go much further to stand up against what some called the "wolfpack" of international speculators: a €750 billion mega-safety net to keep the currency union together—a huge package of loans and guarantees, an ECB bond-buying program, and a decision to reopen swap lines with the U.S. Federal Reserve and other major central banks as a "shock-and-awe" maneuver. The aim was to defend the external financing of the more vulnerable eurozone members.

CRISIS IN LEADERSHIP

The escalating euro crisis comes with sobering lessons. The failure to contain the Greek financial crisis exposed a frightening lack of collective leadership, unsettling the eurozone's bond investor base. What leaked out from the historic

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Brussels crisis meeting—that French President Nicolas Sarkozy threatened his country could leave the euro if Germany didn't support a full bail-out of bond holders—reflects the deep divisions among eurozone governments. Also noteworthy is how U.S. President Barack Obama urged German Chancellor Angela Merkel to agree to a major defense action, since the escalating euro crisis was damaging trillions of dollars in U.S. financial assets.

In Germany, Europe's largest economy, a sense of defeat is mixed with worry about how long Germany can bear its new financial burdens as the biggest "paymaster" of what is becoming a "European transfer union," in which the taxpayers have to finance the profligacy of the highly indebted weaker economies.

Political hypocrisy has led to collateral damage. In spite of preaching good governance and sound fiscal rules, politicians and governments practiced the opposite. This has revealed the impotence of the EU Commission, eroded the credibility of national governments, and damaged the European Central Bank. If leading economies like Germany and France could disregard and weaken the fiscal and debt rules in the Stability and Growth Pact, it's no surprise that smaller members such as Portugal, Ireland, Italy, and Greece operated beyond their financial means, since as members of the eurozone they could obtain external funds at low interest rates.

Based on past experience, market actors remain skeptical that the Greek government will implement most of the



Angela the Poodle

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radical reform measures required under an International Monetary Fund program. Again, European leaders are not telling the truth to their people. And if someone like Deutsche Bank CEO Josef Ackermann tells things as they are—that Greece will never be able to cope with the high level of its debt—he gets into trouble with political leaders.

The overall size of the euro economy has not served as an umbrella. The illusion that a liquidity crisis in a small member economy such as Greece—representing only about 3 percent of the currency bloc's GDP—could not harm monetary union has been shattered. On May 7–9, heads of state and finance ministers gathered in Brussels to put together—with the International Monetary Fund providing about one-third—a financial umbrella of \$1 trillion to protect the bonds of all highly indebted eurozone member countries against unforgiving markets. They did this after ECB President Jean-Claude Trichet presented them with what participants described a "horror scenario" of ever-greater speculative waves against highly indebted and fiscally weaker eurozone states, with Portugal's two-year bond interest rates exploding to 38 percent. Looking ahead, although German Finance Minister Wolfgang Schäuble announced proposals for the strengthening of eurozone fiscal rules, no concrete steps have been taken.

BAD BANK

So is the European Central Bank on its way to becoming the eurozone's "bad bank" for toxic assets? That's the view of Deutsche Bank chief economist Thomas Mayer in light of the ECB's recent decisions to buy old bonds of the PIIGS. For the first time in its short history, the ECB's independence is seriously damaged. The way it let itself be pushed around under political pressure has severely damaged the ECB's credibility. ECB President Trichet has come under attack as never before, first because of his embarrassing

turnaround on the ECB's collateral policy, and recently over his apparent *volte-face* on asset purchases. The ECB has been forced under political pressure to buy the outstanding bonds of troubled sovereign debtors, thus taking in mountains of junk. Already holders of Greek and Portuguese bonds from outside the eurozone have seized on this new purchase policy to dump their positions, leaving eurozone taxpayers exposed to the credit risk. Government bond purchases by the ECB are nothing other than monetization of excessive fiscal deficits.

The zig-zigging way Berlin responded to the Greek financial crisis is seen as an invitation to financial market speculators. Merkel's hesitant and indecisive handling of Greece's disaster, her critics allege, escalated the crisis. Only recently, she was making headlines in the tabloid *Bild* as "Madame No," the "Iron Lady," or as "Eurofighter" defending German taxpayers. For weeks she appeared on television telling the nation that Greece did not need financial help from Berlin or, so far, had not yet asked for such help. In talks with her EU partners, she defended herself against the legal risks, pointing to the need to adhere to the "no bail-out" clause that was confirmed by Germany's constitutional court.

Yet Merkel's ruling center-right coalition government gave the impression of a noisy and chaotic schoolyard. Some of her party members came up with the crazy demand that Greece should sell its many islands to pay its foreign debt. Tensions between the chancellor's office and her finance minister, Wolfgang Schäuble, became apparent. Former Chancellor Helmut Schmidt, former Bundesbank President Karl-Otto Pöhl, and Theo Waigel, finance minister under Chancellor Kohl, attacked Merkel and her close advisers for their unprofessional management of the crisis.

Then, at the Brussels meeting, Merkel came out with the battle cry against speculators to defend the euro with "whatever it takes."

BAIL-OUT DOCTRINE

From the beginning, German and French governments opposed alternative approaches to the Greek rollover problems and looming solvency crisis. They rejected any restructuring of Greek bonds or any haircuts, and stuck to the strategy that the G20 heads of state had adopted in 2008 as the “Washington consensus”—to bail out banks because of the systemic risks that haircuts on outstanding bonds might imply. This explains the last-minute pressure from U.S. President Obama to make sure that the bail-out strategy for the banks also be applied to failing sovereign debtors such as Greece.

The French and German governments avoided prodding the Greek government to enter debt rescheduling negotiations with the bondholders. This means they missed the chance to shift some of the adjustment burden from taxpayers to the bondholders and banks that made a lot of money investing in high-yielding Club Med sovereign bonds. Both the German and French governments are under pressure to safeguard the high Greek bond exposure of their banks and insurance companies (France close to €80 billion, Germany more than €40 billion). Should Greece and bondholders agree on a “haircut” of 50 percent, the Berlin government estimates that this would mean losses of about \$15 billion at public-controlled or state-supported banks alone.

But after the Brussels meeting, Deutsche Bank CEO Josef Ackermann confessed on ZDF Television that even with the two-pronged rescue plan, Greece won’t be able to pay back its debts. This offers the dire prospect that a debt restructuring may come at a later date. Some of the economic consequences of applying the G20 bailout doctrine to sovereign debtors are worrying. Experts warn that imposing austerity plans on eurozone members will cause economic growth to remain anemic. Worsening economic

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growth prospects may already be reflected in the rapidly falling euro.

NO PUBLIC DEBATE

It is bitter to see that the latest German rescue of European monetary union will once more be pushed through parliament without any public debate. Former Bundesbank President Karl-Otto Pöhl and former chairman of Germany’s Council of Economic Advisors Juergen Donges see the huge state safety guarantee as “a danger for the euro.” A currency that needs a support net may be seen by the markets as an invitation for more speculation.

When monetary union was planned more than ten years ago, a small power elite forced the German people to give up their trusted deutschemark and independent Bundesbank without providing an opportunity for a broad discussion of the implications. Now another political power elite is pushing through the rescue of a severely damaged European monetary union at huge potential costs to its taxpayers, again without public debate and with the Bundestag only acting as a rubber stamp. Chancellor Merkel deviously justifies this lack of democratic decision making by selling the outrageous agreements taken in Brussels as “without alternative.”

Although the Bundestag passed the €22.4 billion share of the three-year €110 billion “support mechanism” for Greece, there still are legal hurdles. Germany’s constitutional court in Karlsruhe will judge whether Berlin’s guarantees to Greece violate EU rules and the German constitution. The “no bail-out” clause in the Maastricht treaty was confirmed by the constitutional court as fundamental to Germany’s acceptance of monetary union. This clarification was achieved by some long-standing opponents of monetary union who went to the constitutional court again immediately after the German parliament passed the Greek support package. Economics professors Wilhelm Hankel and Joachim Starbatty, law professor Karl Schachtschneider, and former Bundesbank Council member Wilhelm Nölling, along with former Thyssen AG CEO Dieter Spethman, were not able to get an injunction from the court,

Continued on page 60

Continued from page 17



The Merkel-Karamanlis Connection

Even more problematic is the part that Chancellor Merkel played in failing to stop the Greeks from cheating and living beyond their means. From 2004 to 2009 Merkel protected the conservative Greek government under Prime Minister Kostas Karamanlis from EU Commission action over Greece's escalating fiscal deficits, ballooning debt, and statistics rigging. She needed her "close personal friend" Karamanlis as her ally to get her way in the European association of conservative parties and in the Club Med countries.

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Kostas Karamanlis

but hope to be successful when the court deliberates its final judgement. On the other side, Merkel's lawyers took great care to circumvent any legal risks when negotiating the structure of both the Greek support mechanism and the much bigger \$1 trillion guarantee umbrella for the eurozone.

LOSING ON THREE FRONTS

The euro crisis has shown the serious erosion of Germany's negotiating power in Brussels, at the European Central Bank, and at the International Monetary Fund. Over the last few years, whispers began that German Chancellor Merkel was the subordinate Siamese twin to French President Nicolas Sarkozy. The dominance of "La Grande Nation" over Europe's largest economy has seemed to increase since Greece imploded. "Super Sarko" took a lead role in Brussels after the May meeting, announcing the nearly \$1 trillion deal, an image that will not be forgotten in Germany anytime soon.

This description taken from an Associated Press news report is revealing: "The enormous rescue effort has a distinct French flavor—even down the cookies served through the marathon negotiations... France is loudly claiming

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credit, with Sarkozy's prime minister saying French doggedness clinched the deal to try to save the currency that ties this continent together, and vowing to 'reinvent the European model'. ... Europe's other powerhouses, while crucial to securing the joint European Union-International Monetary Fund plan, came off looking sidelined: Germany's Angela Merkel was humbled by agreeing to a rescue she long resisted... The European Central Bank's abrupt decision Monday to intervene to buy government bonds is something Sarkozy, among others, long had sought."

For the first time Germany—the country that gave up its trusted deutschemark and independent Bundesbank—was defeated on the most important issue so far before the Council. Now the failure of German politicians, central bankers, and top public servants to secure representation and votes at the meeting has become apparent. The two German representatives of the ECB, Axel Weber, president of the Bundesbank, and Jürgen Stark, member of the ECB Executive Board and chief economist, voted against the ECB policy change to buy bonds directly from sovereigns and corporations, to no effect.

Being sidelined on such an important issue is a great defeat for the once mighty Bundesbank. Since joining the International Monetary Fund in 1952, Germany, mainly through the Bundesbank which was given the responsibility of managing the country's share, has amassed considerable influence in the Fund, with an emphasis on avoiding the monetization of fiscal deficits in IMF programs with member countries. Now that Merkel has called for the Fund's help in order to use central bank reserves to cover the fiscal deficits of Greece, this fiercely defended policy stance has been given up, leaving Germany's position in the Fund shattered.

In the view of many observers, Merkel let a liquidity crisis in Greece spin out of control and thereby put at risk the cohesion and further existence of European monetary union. She stands accused of having blocked a common

Party members came up with the crazy demand that Greece should sell its many islands to pay its foreign debt.

European rescue action earlier this year, delaying any politically risky bail-out announcement until after elections in North Rhine-Westphalia, Germany's largest state, on May 9, 2010. Also, by scolding the profligate and cheating Greeks, she invited a nasty chauvinistic media campaign leading to bitter reaction from abroad. The clumsy way the German authorities have handled the Greek crisis is seen with bewilderment, worry, and anger among some of Germany's EU partners, since when it comes to defending the stability of the euro and the cohesion of European Union, Germany holds the key as the largest and financially strongest eurozone member. It is yet uncertain how the crisis, which began with market worries about a looming Greek insolvency, will play out.

FROM A BERLIN OBSERVATION POST

Not even eurozone politicians or Brussels bureaucrats can ignore for long a central reality of the markets: old-fashioned "country risk." To put it bluntly, neither a currency board nor a monetary union can shield from financial market punishment a country that—like Greece—over the years indulged in fiscal profligacy and official statistics rigging.

Dire predictions were whispered amongst the network of public officials in treasuries, central banks, the EU Commission, and European think tanks after the approval of Greece's entry into EU monetary union as its twelfth member in June 2000. "This is a political decision by Chancellor Gerhard Schröder (SPD), supported by his foreign minister Joschka Fischer (Greens), in spite of the fact that Greece is lacking in qualifications." Some opposition members voiced their concerns openly. Since the Social Democrats had pushed to give the euro to the Greeks early and were in government until last year, they have tamed their public outrage whenever bigger guarantee rescue packages reach the Bundestag for a vote.

Even more problematic is the part that Chancellor Merkel played in failing to stop the Greeks from cheating and living beyond their means. Under the headline "The Short Memory of Angela Merkel," *Handelsblatt's* former chief editor, Bernd Ziesemer, recorded how from 2004 to

2009 Merkel protected the conservative Greek government under Prime Minister Kostas Karamanlis from EU Commission action over Greece's escalating fiscal deficits, ballooning debt, and statistics rigging. She needed her "close personal friend" Karamanlis as her ally to get her way in the European association of conservative parties and in the Club Med countries. As Ziesemer discovered, Merkel said no to giving the EU statistics office more powers to catch the Greek official statistics cheaters. She also made sure that an alarming report, in which EU Commissioner Joachim Almunia presented to the ECOFIN a forecast for a 10 percent fiscal deficit for Greece in 2009, was not taken as a wake-up call on the German side.

The ticking time bomb for sovereign bonds for Greece and other eurozone members became apparent at a small banking conference in Berlin at the end of last year. Alexander Kockerbeck of Moody's began warning that any day, the bond dealers could awake to the looming sovereign fiscal and debt crisis in the eurozone, and market sentiment could then change with a vengeance, putting politicians, governments, and central bankers on the spot. Also discussed at that conference was the fallacy that Greece could not contaminate the huge eurozone economic bloc since it made up only 3 percent of the eurozone's GDP.

Then on February 8, Deutsche Bank Chief Economist Thomas Mayer and Daniel Gros from the Centre for European Policy Studies in Brussels came out with a policy brief called "Toward a Euro(pean) Monetary Fund," arguing that the turmoil affecting the southern euro area countries (notably Greece) had ushered in "the second phase of the financial crisis," that of sovereign default. In their view, it was time to look for "a new framework that allows the European monetary union to deal with the failure of one of its members." By highlighting the restructuring experiences

Now another political power elite is pushing through the rescue of a severely damaged European monetary union at huge potential costs to its taxpayers, again without public debate.

Why Euroskeptics Say “I Told You So”

As the euro languishes in intensive care, some long-standing critics of the decision to abandon the deutschemark—critics who were sidelined as “euroskeptics” during the debate on monetary union—can now retort, “I told you so.”

Since Germany’s power elite used the weapon of political correctness to demonize and silence its critics while ignoring the public’s anxiety over losing its beloved currency, I was not allowed to take a eurocritic line in the newspaper I worked for at the time. I was grateful to *The International Economy* for publishing some of my euroskeptical pieces, such as “Confessions of a DM Lover: Germany’s Last-Minute Grassroots Awakening to the Real Consequences of Unification” (January/February 1992). There, I explained how “[Chancellor Helmut] Kohl and [Foreign Minister Hans-Dietrich] Genscher, to pay for French support for German unity, are selling the shop”—the deutschemark’s role as anchor of the European exchange rate mechanism. And I quoted the warnings of former Bundesbank President Karl Otto Pöhl, who argued that “any attempt to fix exchange rates within the Community and eventually replace national currencies with a European currency would be doomed to failure so long as a minimum of policy-shaping and decision-making in the field of economic and fiscal policy does not take place at the Community level. Without this prerequisite being met, a common European monetary policy cannot ensure monetary stability on its own. Above all, it cannot paper over problems in the Community arising from differing economic and fiscal policies.”

I also quoted Quentin Peel, then Bonn correspondent for the *Financial Times*, on the lack of a real German debate. “The fact that monetary union is probably the single most substantial step in transferring national sovereignty, and control over real political issues like taxation, to the European Community, has scarcely been hinted at.”

In my piece “The Battle for the Deutschemark: Is Germany’s secret internal war over EMU about to become public?” (January/February 1996), I talked about

how Chancellor Kohl was selling the Maastricht Treaty and EMU as “the difference between war and peace in Europe during the twenty-first century,” and how German Finance Minister Theo Waigel used his proposals for an “Economic Stability Pact for Europe—stricter permanent fiscal rules for the countries taking part in EMU” to overcome public opposition to the new single European currency. My key issue: “How can the Bonn government ensure that the euro will be as stable as the deutschemark if the Maastricht Treaty is standing only on one pillar: monetary constitution? The other pillar, fiscal constitution, is still lacking. While the member countries of EMU surrender their sovereign right to print money, they reserve the right to tax, spend, and become debt-ridden.”

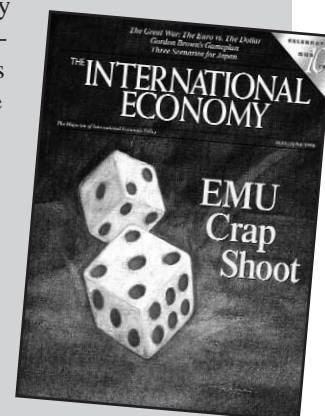
Of Chancellor Kohl’s two generals, Waigel and current Finance Minister Wolfgang Schäuble, the wheelchair-bound Schäuble is now at the center of Berlin’s desperate efforts to keep Greece solvent and save monetary union from falling apart.

With my piece on attempts by Germany’s power elite to quash all forms of euro-criticism while ignoring the potential traps ahead—“Europe’s Politically Correct Money” (May/June 1997)—I even made the *TIE* cover. The article talked about the “repressive German political correctness regime, which has been largely overlooked by foreign observers. It has been effectively applied by Germany’s political class in an attempt to push for more European integration by surrendering to French pressure to ‘communize’ the deutschemark and in the process dismantle one of the most trusted institutions of the post-World War II era—the Deutsche Bundesbank.”

Under Hans Tietmeyer’s leadership in 1998, the Bundesbank missed its last big chance to block monetary union in a report on convergence it made to Chancellor Kohl. I was called to write “Buba’s Last Hurrah” (May/June 1998).

My articles in the 1990s exposing the internal struggle over abandoning the trusted deutschemark reveal the inside information, judgments, and worries of legions of public officials and experts who didn’t dare to express their views openly. I look back at them not only to say, “I told you so,” but also to concede, *plus ça change, plus c’est la même chose*.

—K. Engelen



Former Bundesbank President Karl Otto Pöhl: “A common European monetary policy cannot ensure monetary stability on its own. Above all, it cannot paper over problems in the Community arising from differing economic and fiscal policies.”

of sovereign debtors in the emerging countries—and the default of Argentina in spite of huge IMF loans, leaving thousands of private bond holders still waiting for their money—the authors provided politicians with a broad range of options. But as it turned out, only German Finance Minister Schäuble followed up on the idea of setting up a “European Monetary Fund” as a specialized European mechanism to manage the insolvencies of euro area countries in an orderly way.

What is at stake for European leaders, the European Central Bank, and the global financial industry was illuminated by the analysis that Zero Hedge blogger Tyler Durden posted on February 9 in “Deconstructing Europe: How a €20 Billion Liquidity Crisis Is Set to Become a €1.6 Trillion Funding Crisis.” He writes, “Now that some sort of Greek bailout is imminent, most likely in guarantee form, it is high time to evaluate the full impact of Europe’s decision to jettison monetary prudence at the expense of patching a crumbling fiscal dam holding back trillions in bad investment decision cockroaches, accumulated over years.”

Relying on a presentation by Jeffrey Rosenberg of Merrill Lynch, Durden warned “that by providing loan guarantees to the periphery, the core (Germany/France/Benelux) may have well destabilized the core problem for the eurozone, namely a whopping €1.6 trillion in 2010 financing needs, a number which consists of €400 billion in 2010 bond maturities, €700 billion in rolling short-term debt, and €530 billion in combined 2010 fiscal deficits.”

Durden takes aim at Berlin policymakers who are shooting themselves in the foot. “Germany has just taken an acute liquidity crisis in the periphery, and courtesy of action we

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already saw earlier in Bund rates, has sown the seeds for a funding crisis of none other than the very heart of the eurozone.”

This line of analysis must have spurred Deutsch Bank CEO Josef Ackermann, Germany’s most controversial, influential, and successful banker, to do something earlier this year to calm unsettled bond markets and buy time for Greece’s public sector to come up overdue reforms. Reacting to market information to which Deutsche Bank is privy as a leading global investment firm, Ackermann had been working in secret since beginning of the year to put together a large private-public syndication of about \$30 billion to cover Greece’s roll-over needs for 2010.

His plan was to put together as early as possible a \$15 billion syndication with the banks. This portion would be provided without state guarantees, and would be matched by another \$15 billion that Germany’s state development bank KfW would provide on the backing of state guarantees provided by eurozone governments.

As explained by Deutsche Bank sources, “The idea was to send a signal to the markets with the \$30 billion two-year loan that for now Greek government has covered its external financing needs.”

In its April 28 issue, *Handelsblatt* reported that on February 26, Ackermann had flown to Athens to negotiate such a two-year jumbo loan with Greek Prime Minister George Papandreou. On that day the interest rate was 6.1 percent. “In hindsight, this Ackermann deal could have avoided the eurozone collision with the markets,” confesses a high-ranking central banker. “Unfortunately, Merkel’s chief economic advisor [Jens Weidmann] rejected this timely private-public rollover loan, one that in retrospect looks peanuts compared with the \$1 trillion emergency financing that the public sector now needs to keep the eurozone from unraveling.”

If Merkel and the Berlin government had acted differently, the smoldering sovereign debt crisis in the eurozone might not have exploded. Maybe global investors in eurozone sovereign debt would have held a bit longer to the notion that in the eurozone, “country risk” wouldn’t matter. Having leading banks in February covering half of Greece’s rollover needs for 2010 without state guarantees might have sent the confidence signal to the bond markets that would have kept the “wolfpack” of speculators at bay. ◆