

FINANCIAL TIMES

GLOBAL INSIGHT

October 20, 2011 7:18 pm

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Germany has leading role in eurozone drama

By Tony Barber in London

Tim Geithner, the US Treasury secretary, observed in Paris last weekend that “when France and Germany agree on a plan together and decide to act, big things are possible”. In this way he gave voice to the hope, though perhaps not the firm conviction, of economic policymakers around the world that Paris and Berlin would waste no more time in devising a comprehensive solution to the European debt emergency.

Hopes that Sunday’s summit of eurozone leaders would produce such a solution are now in tatters. The important decisions will have to wait until a second meeting on Wednesday. Nicolas Sarkozy’s fruitless dash to Frankfurt for talks with Angela Merkel on Wednesday suggests that the two capitals are further apart than before. But Mr Geithner was right to pinpoint Germany and France as the central actors in the drama.

One might have expected that as the eurozone expanded to 17 member states today from 11 at its birth in 1999, the importance of bilateral Franco-German initiatives would be diluted. But the sovereign debt and banking sector crises have put paid to that. With Italy and Spain, the area’s third and fourth-largest economies, locked in a desperate battle with the bond markets, the burden of responsibility rests squarely on the shoulders of Berlin and Paris.

So, at least, one might conclude from the frequent meetings that Ms Merkel and Mr Sarkozy have held since Greece confessed in October 2009 that its public finances were plunging towards disaster. The problem is that the notion of co-equal Franco-German leadership in the debt crisis is a polite fiction.

Until the collapse of European communism and Germany’s reunification two decades ago, the Franco-German partnership contained a genuine balance insofar as the French took the lead on political matters in Europe and the Germans held the upper hand in economic and monetary affairs. For much of the euro’s first 10 years the equilibrium appeared to remain intact, partly because the French economy was growing strongly and Germany was grappling with the colossal costs of rebuilding its former communist eastern states.

With the passage of time, however, Berlin not only reasserted its economic pre-eminence, by ruthless control of wage costs and the introduction of wide-ranging structural reforms but also came to feel comfortable with using a louder and more distinctively German voice on political

issues. Two pointers in this direction were the pursuit of a permanent German seat on the UN Security Council and a rupture with Washington over the US-led invasion of Iraq.

As the European debt crisis has deepened, so France has found it more difficult to maintain the illusion that it is Germany's equal and that any solution will be designed as much by Paris as by Berlin. One telling sign is the mounting pressure on France's triple A credit rating.

This top-notch status is threatened not just by the potential cost to the French state of recapitalising banks and extending financial support to smaller eurozone countries. A longer-term problem is France's struggle to restore order to its public finances and implement the sort of structural measures that Germany adopted so successfully after the euro's launch.

For example, Mr Sarkozy's centre-right forces were defeated so heavily in last month's Senate elections that he will not be able, for the foreseeable future, to keep his promise to emulate Germany and pass a balanced-budget amendment to the French constitution. The victory of François Hollande in this month's socialist primaries means that the main challenger to Mr Sarkozy in next year's presidential election will be a politician whose party is committed to rolling back some of the present government's pension reforms. Opinion polls consistently indicate that the socialists have a good chance of unseating Mr Sarkozy.

The likely effect of the Franco-German imbalance is that, if and when Berlin and Paris decide on a comprehensive solution to the debt crisis, it will be on German more than French terms. A consensus is developing among Germany's political classes that the eurozone needs a closer fiscal and political union in which member states will have to give up full sovereignty over their budgets.

The question is whether France will embrace this idea. Back in the 1990s it fended off German proposals for European political union. Now France's choices are more constrained. Mr Geithner's vision of "big things" may yet come to pass.

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