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Germany: A Bric, or just stuck in a hard place?

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By Wolfgang Münchau

Angela Merkel has just been to Beijing, in a year when China is about to displace France as Germany's largest trading partner. When that happens, it will be a symbolic moment. It will also encourage those currently posing the following question: should Germany detach itself from the eurozone mess and become a Bric – a mid-sized global economic power, like Brazil, Russia, India and China, whose initials constitute the Bric acronym?

I first heard the notion of Germany as a Bric from Ulrike Guerot of the European Council on Foreign Relations, who is vehemently opposed to the separatist anti-European tendencies in Germany. Probably the clearest expression of this idea came recently from Wolfgang Reitzle. The CEO of Linde, a German industrial group, said that Germany should consider leaving the eurozone. This might bring some short term pain, he acknowledged, but it would increase Germany's competitiveness in the long term.

I have always found Germany's obsession with competitiveness to be one of the deep causes of the eurozone crisis. The active pursuit of large current account surpluses has contributed to the eurozone's internal imbalances. For a country the size of Germany, it may be feasible – albeit misguided – to formulate policy this way. For a large economy like the eurozone, it is unsustainable.

Something which falls short of an outright endorsement of a Bric strategy is the call for Greece and other peripheral countries to leave the eurozone. Klaus-Peter Müller, chairman of the supervisory board of Commerzbank, recently advocated this. Keeping the eurozone together is clearly no longer the priority of Germany's business and financial establishment. In the 1990s, they were the monetary union's strongest advocates.

The establishment's disillusion with their neighbours to the west and the south coincides with a rise in their esteem of the east. I was recently reminded of that change at a dinner in Berlin with a group of journalists, one of whom told me that young Berliners looked towards Moscow as the "coolest" city in Europe by far – apart from their own, of course. Warsaw, too, was high up in this perceived coolness scale, way ahead of London, Paris, or New York. Old Berlin was split between west and east. Young Berlin looks east. German business looks even further to the east.

The sentiment of a Germany adrift is felt elsewhere in the eurozone. After the tragic capsizing of a ship off the Italian coast, an Italian newspaper published a cartoon of the German chancellor in a lifeboat rowing away from Discordia, ignoring calls to come back on board. Even I think this is unfair to Ms Merkel. She may have committed serious policy errors in her crisis management, and will no doubt commit more in future. She is not preparing for a German departure from the

eurozone. But if the Germans want to reposition themselves on the global economic map, the political system will find a way to accommodate this.

We are essentially discussing a new variant of the “German question”. With unification, Germany has become too large to be an ordinary European state, yet not large enough to be a superpower. Poland’s foreign minister, Radoslaw Sikorski, recently called for more German leadership in Europe. But on the few occasions when Germany takes a lead, is met with derision.

Deep down, the Germans do not want to lead in Europe because they are not ready to pay the price for leadership. This is why it has been so important for the government to present a clearly defined upper ceiling for Germany’s maximum liability in the eurozone rescue operations. To its advocates, the Bric strategy offers a way out of this “awkward-size” dilemma.

It is not going to work, of course. Germany draws much of its current strength from a devalued real exchange rate. This, in turn, is due to a combination of wage moderation and a fall in the nominal exchange rate against the dollar and other currencies, a result of the eurozone’s crisis mismanagement. A free-floating new D-Mark would eradicate the gains of the recent decade. Germany has also been one of the main beneficiaries of the single European market.

If Germany were to follow Mr Reitzle’s into Bric-land, many companies, possibly even his own, would find it more attractive to relocate to the rump of the eurozone, which would benefit from a more attractive exchange rate. It would be the ultimate irony. The eastward-looking bric-layers will discover that there is simply no viable political and economic alternative. Germany is a very old and rich European country with a declining population – the total opposite of a Bric.

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