

Germany: the beleaguered European island

Ulrike Guerot, 9 September 2011

Germany's situation in the early-autumn days of 2011 seems oddly ambiguous, in a way that perhaps befits the strange economic and political times that the country - as well as Europe as a whole - is living through.

On the one side, prosperity and growth, a working democracy and a peaceable society, where admitted problems are discussed and shared in a free media; on the other, a landscape of worries and doubt about the scale of Germany's (and the [eurozone's](#)) underlying financial problems, the direction of Europe itself, and the capacity of the current leadership (especially the chancellor, Angela Merkel) to [deal](#) effectively with these problems.

If it is hard to reconcile these contrasting images, it is also hard to choose between them - since both represent a genuine description of aspects of Germany's current reality. So to come closer to an understanding of Germany's real situation (and given her international position, that means the European Union and the eurozone's [too](#)), it is worthwhile pursuing the surface paradoxes a bit further.

The blessed island

Germany does seem, at least from the outside, to be doing well. The impressive economic growth-rate, sustained in 2009-10 even in the midst of Europe's mounting currency and debt crises, even had to be managed [downwards](#) a little in 2011 - because (as finance minister Wolfgang Schäuble) stated, expectations had [become](#) too high.

China continues to be a sputtering [fountain](#) for German engineering; Germany accounts for over 40% of European Union [exports](#) to China. Companies such as Siemens or the business-

software group SAP have been posting double-digit growth-rates growth. Some firms in southern Germany are desperately looking for qualified employees.

Indeed, the unemployment [figures](#) have been steadily falling, another impressive statistic in the context of the wider financial woes. Even in previous years when joblessness was a blot on Germany's record, [youth](#) unemployment never exceeded 10%, let alone the dramatic highs of 30%-plus as in Spain or Greece. All this is reason enough for the respected journal [Foreign Affairs](#) to publish an article about "what Germany got right" (see Stephen Rattner, "[The Secrets of Germany's Success](#)", *Foreign Affairs*, July-August 2011).

In the public sphere too, Germany can to a degree claim to be defending standards that are weakening elsewhere. Its range of independent and variegated newspapers producing quality [journalism](#) represents an important counterweight to the populist and reductive spirit of the age - and the character of its media may even be a factor in Germany having kept [populism](#) at bay (or at least the rise of a significant populist party of the kind that has [grown](#) in France, the Netherlands, central Europe and Scandinavia).

Again, the experience of Hungary (where press freedom is [threatened](#)), Italy (where the [Berlusconi](#) empire is dominant) and Britain (where oligopoly is routine) makes Germany's position here look impressive. From the perspective of a sea of troubles in Europe - colossal deficits, soaring unemployment, social fractures, populist resurgence - Germany can still appear an island of security and prosperity.

Many who might wish to agree with this assessment would point to the social and political textures that underpin Germany's industrial economy, so different from those of its neighbours, as the foundation of the country's success. The backbone of Germany's economic [strength](#) has been the *Mittelstand* (middle-sized businesses), especially in the engineering sector, where a multitude of these and smaller enterprises produce price-inelastic (because unique) products for the global market.

They embody a still [robust](#) industrialised sector (in contrast to economies, such as Britain's, dominated by finance); draw on an educational system that for long could produce a steady flow of qualified workers and employees, as well as people ready to enter elite professions; and are [implanted](#) in an economy with a high degree of decentralisation, where expertise is spread and an industrial ecology is part of the social fabric in many local communities.

In this respect there is a real link between Germany's federal political and institutional [structure](#) and its economic federalism. It is worth repeating that the post-1945 dismantling in order to prevent over-concentrations of power created the basis for the successes of subsequent decades (including the great test of reunification [post-1989](#)).

The European connection

Yet this is where the alternative portrait of a worried country begins to take effect, for inside Germany the country feels far from an island of the blessed - and even its acknowledged strengths are regarded as newly fragile and under pressure.

An important part of the concern is the unprecedented [increase](#) in income inequalities, and the associated fear among the middle classes that a more liberalised and "flexible" economy would damage rather than benefit them. A great debate on the impact of an unequal society where the life-experiences of the super-rich are ever more remote was [sparked](#) by [Frank Schirrmacher](#) - famous editor at the *Frankfurter Allgemeine Zeitung* ([FAZ](#)) - when he picked up the troubled reflection on "[what if the left were right?](#)" by Charles Moore, the equally arch-conservative English commentator, in the *Daily Telegraph*. The controversy [ran](#) for days with seven-league boots through German *feuilletons*.

The fact that German intellectuals see in their country parallels with Britain's social experience is significant enough. A particular theme is the loss of social cohesion, a reality that tends to be valued only when it is vanishing - as many fear is currently happening in Germany. There is evidence of more young people being excluded from education, higher illiteracy-rates, and greater low-level social disruption. These phenomena carry an obvious economic price for

repairing a society with ever more in short. There is also a political [price](#), in that among the disadvantaged any interest in politics or [belief](#) that politics can improve their lives is disappearing.

Erwin Teufel, the former chief minister of Baden-Württemberg, is leading the [argument](#) that the [CDU](#) - dominant partner in the governing coalition led by Angela Merkel - has, by pursuing a pro-market ideology, both betrayed the disappointed German *Mittelstand* and lost public support. The party's election [defeat](#) in the chancellor's home state of Mecklenburg-Western Pomerania on 4 September 2011, the latest in a series of setbacks, reinforces at least the second element of Teufel's case.

Here, the argument over German's domestic conditions takes on a European dimension. For the decades-long alliance between the *Mittelstand* (and the secure middle-class it provisioned with skills and employment) was the political base of Germany's moderate-right parties (Bavaria's [CSU](#) as well as the CDU); parties that governed Germany for most of the post-1949 [decades](#), and largely carried the "European argument" in Germany, persuading voters that Germany is at the heart of European integration and that the process would benefit them.

That "European argument" is harder than ever to sustain when the European Union is divided and uncertain of its strategic direction, and when ([according](#) to the [Allensbach](#) polling institute) some 70% of Germans say that Europe is no longer their future.

In this perspective, the narrative of German success with which this article began is a chimera. At a deeper level, Germany has no real narrative for itself, let alone for Europe - and thus neither for the [relations](#) between them. It therefore cannot play the role that it once enjoyed and was long [expected](#) of it: of forging a bold vision of Europe and leading (or at least co-leading) the European Union in its direction.

The public criticism of the government's failure over Europe by two political heavyweights, former chancellor [Helmut Kohl](#) (once Angela Merkel's patron) and former foreign minister [Joschka Fischer](#), shows how acute this predicament has become.

The side-theatre

Germany's European drift has many dimensions. The domestic discussion of the crisis of the common currency - especially the heated [argument](#) over whether the issuing and backing of "eurobonds" is the solution - is among the most revealing. For it reveals less a genuine engagement with Europe than a local political [calculus](#): would this really allow Germans to end our bottomless commitment to pay the debts of greedy partners in southern Europe, and thus save ourselves and the European economy?

The ruling of Germany's [constitutional court](#) at Karlsruhe on 7 September 2011, [finding](#) that Germany's contributions to the European bailout programme are constitutional, has a twofold implication: that the European system has sufficient legitimacy for the *Bundestag* to vote for the European Financial Stability Facility ([EFSF](#)), but clearly not enough to go down the route of any supranational debt-backing (and eurobonds are nothing else). The latter definitely would require a change of treaty both at the European [level](#) and subsequently of Germany's *Grundgesetz* ([basic law](#)).

The (legitimate) German *Angst* in this discussion is the question of how long a Germany that used the eurobond route as a way of serving its own interests could survive if other eurozone states continued to sink. In this sense, Germany is asking not whether supranational [debt-backing](#) (with all its possible political consequences) could [work](#) for Europe, but whether Germany is strong enough to throw the safety-belt of eurobonds to Europe (or instead risks sinking with its partners).

A year ago, I wrote an article for **openDemocracy** examining Germany's European dilemma in terms of the country's desire to break free from Europe and "go global" (see "[Germany goes global: farewell, Europe](#)", 14 September 2010). Now, after a series of emergency packages and bailouts that has failed to calm the financial storms, the eurobond question has come to dominate the German and European [debate](#) (even though the option is still politically excluded by Ms Merkel). The lack of an alternative vision by this point suggests that a weakened Germany may now in fact be unable *either* to save the euro *or* to go it alone.

A leading European country that has no social vision or national narrative cannot have either for Europe. This helps explain why [Angela Merkel](#) is reluctant to take any decisive step over the eurobonds: for it would inevitably entail making a firm statement of Germany's position over more economic and political integration in Europe (a process in which eurobonds would be one - but only one! - element). Germany's paralysis on these big questions is both a German and a European tragedy.

Against this, Germany's eurozone discussion (and now frenzied eurobond one) seems a side-theatre to the more profound question of the future of Germany's status as an "island of the blessed" in the middle of Europe. Will its growing problems (such as excluded young people) create a dynamic where Germany's social fabric and democratic health becomes as vulnerable as those of some of its neighbours?

The tipping-point

The political ideal inspiring the euro was that a common European currency could serve as an instrument strong enough to surf the waves of international financial turmoil, and act among them as a force for stability (I worked for [Jacques Delors](#) and can confirm that this is what he meant!).

If it has never realised its potential, this is partly because the European left (starting with Tony Blair and his "[third way](#)", followed by Gerhard Schröder's "[agenda 2010](#)"), made "economic and monetary union" (EMU) and the euro itself prey to the ravenous financial markets - rather than using it as a tool to build a [stronger](#) European democracy based also on a "social" in addition to a "market" conception of the state.

This missed opportunity means that the original conception has become trapped in complexities, albeit important (such as the insane shifts from work-rents to capital-rents, institutional flaws that overlooked [endemic](#) tax-evasion and corruption in Greece, and other aspects of moral hazard).

This evolution, which the financial crisis of 2008-11 has [accentuated](#), long ago turned the euro into a scapegoat for German public opinion. The scapegoat [might](#) now be killed, in part because that seems far more easy than correcting or containing the all-powerful financial [markets](#) through better regulation.

The only way to prevent this is through a return to the primacy of politics, where both a radical market logic and an easy populism are kept at bay. This would make the euro the European tool it was always meant to be, and put the question of what Germany really wants of Europe and of itself at the centre of the agenda. Germany remains the tipping-point country for the future of Europe and the eurozone - even despite itself.