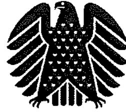

Deutscher Bundestag
Committee on Foreign Affairs

Chairwoman of the Foreign Affairs Committee
Ms. Ane Halsboe-Jørgensen
Folketinget
Christiansborg
1240 Copenhagen
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Our reference: PA 3- 7421

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Dear Madame Chairwoman,

Please find attached an article from the *Frankfurter Allgemeine Zeitung* newspaper on the subject of the aid package for Greece, written by the Chairman of the German Bundestag's Committee on Foreign Affairs, Dr. Norbert Röttgen.

We would be very grateful if you could make relevant decision-makers in your country aware of the article.

Yours sincerely,

Dr. Michael Fuchs

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The euro: irreversible – but not indistructable

So mesmerised are we by the drama and theatrics of the present Greek showdown that we are inclined to assume that what we see unfolding before our eyes is what the play is really about. In fact, as is so often the case, the reality is rather different. Yes, this is a Greek drama, but the real issue is not Greece but Europe – unfortunately. If this were about Greece – or, to be more precise, if the problem could be confined to Greece – then it would be possible to isolate it and find a solution which, although painful for Greece itself, would be relatively straightforward for everyone else, given that Greece accounts for only around 2 per cent of the euro area's GDP and around 3.5 per cent of its population. This would be an option, if it weren't for the euro. That's why the suggestion that all we have to do is to take the Greeks out of the euro in order to solve the problem is as simple as it is appealing. But it is an illusion. Taking any member of the euro community out of the euro is impossible. The euro is irreversible, but not indistructable. With European monetary union – in other words, with the euro – the once diverse national currencies and monetary policies have been replaced by a new shared sovereignty from which there is no lawful exit – and certainly no expulsion. But above all, the euro is politically irreversible. If the case of Greece proves anything, then it is this. Not even a country like Greece, struggling to breathe under the weight of the external value of the euro, is seriously considering an exit, despite all the words of advice from numerous and prominent onlookers. France and Italy – the euro community's two largest countries and economies after Germany – categorically refuse to countenance such a move, for both these countries see the euro's irreversibility as an existential issue. And in truth, so does Germany. No other country benefits economically as much as Germany from the absence of national monetary policy and the ups and downs in the value of the national currencies, reflecting countries' economic performance. No other country benefits politically more than Germany from Europe's stability and institution-building, for the EU is the main context for our external trade and foreign policy. And no other country has benefited more than we have from European integration as the political mechanism that brought about reintegration, recovery and reunification. And until recently, I assumed this was so obvious that it did not need to be written down.

Like any currency, the euro is a legal, political and cultural construct, a reality which, once established, can no longer be dispensed with by its members. It's like Faust, who must learn a lesson from Mephistopheles: "In the first we're free, in the second slaves to the act." So there will be no grexit – not even a temporary one. For both are, ultimately, one and the same. Here, the Greek drama has created a widespread misconception. But if we give a moment's consideration to the notion of a grexit, it soon becomes clear that both politically and in terms of European law, it would have to be time-limited, lasting only until the moment – whenever that may be – when the country (re)gained compliance with the accession criteria.

Irreversibility does not mean fatalism or laissez-faire. Nor is it carte blanche for political blackmail. On the contrary, this is where policy-making begins. And it must begin, at long last, for although there is no turning back from the euro, there is no guarantee of its success. On the contrary, the euro itself is in danger. The global financial crisis in 2008 has left scars, still unhealed, on the euro community and Europe as a whole. Not only has the euro not returned to its pre-crisis health: the crisis has fundamentally changed the euro community and the EU itself. Some countries have recovered well and are in better shape than before; others have taken such a beating that recovery seems out of reach. There are winners and losers, creditors and debtors, and as a consequence, there is a new nationalism of interests on the part of governments and a new brand of nationalist populism in the populations at large. Together, they form a toxic and lethal mix. If these divisions and confrontations continue, then the next external economic shock, the next bubble that bursts, is not just a matter of time but an event that will impact on a euro and a Europe which lack adequate resilience. That is the context in which Greece is relevant and in which Europe's decision-making should be judged. In essence, we face a crisis of solidarity – the very foundation on which Europe is built. Restoring the system's resilience, along with a measure of solidarity, is a race against time and it must start now. Whether we like it or not, viewed objectively, it is Germany that bears the responsibility to be the pacemaker in this race. In recognising this responsibility, we Germans should be motivated by our overriding economic and political interest in a properly functioning and durable euro: "There ain't no such thing as a free lunch".

One proposal seeks to bolster the common currency through the partial integration of fiscal policy, with the express aim of enabling Europe to intervene in national

budgetary policy. It is generally conceded that this would require common budgetary resources and some form of genuine and dedicated parliamentary control. In short, this means a European finance minister with responsibility for a budget raised by European taxes and relevant powers of intervention, as well as a separate parliament to provide legitimacy and exercise scrutiny. This would be the largest single communitisation project in the history of European integration, apart from the adoption of the euro. It's a logical proposal, but it suffers from a problem to which neither a theoretical nor a practical solution has yet be found: the unanswered question of democratic legitimacy and acceptance. The proposal is based on the idea that the theory and reality of national parliaments can be transferred on a "one to one" basis to transnational institutions, creating transnational sovereignty. But a parliament alone does not automatically generate acceptance. Democracy is more than a formal chain of legitimacy. Democracy is, above all, a communicative and therefore a cultural and linguistic process. And the ramifications of this have not been addressed theoretically nor resolved practically. To give an example, at a time when interest rates are at an all-time low and investment in modernisation is needed, Germany's budgetary policy, which aims to deliver a "schwarze Null" – a federal budget that is in the black, or fully balanced – combined with its massive trade surplus, would be regarded by the majority as economically misguided and the cause of disequilibrium in the euro area. Can we imagine Europe correcting this national policy? Hardly.

Instead, what is needed is a mix of ambitious but realistic steps to transfer powers to the Community, together with intergovernmental action and coordination on the essentials. Ambitious but realistic steps include a genuine banking union and a capital markets union. With European banking supervision, European bank resolution and European deposit guarantee schemes, a broader spread and privatisation of risk can be achieved and bank failure can be decoupled from sovereign default. At present, sovereign default often leads to bank failure, and bank failure, in turn, devastates a country's economy. The two together often create a risk of contagion. With a genuine banking union, bank failure would be a matter for the European banking system, and sovereign default would be an issue mainly for the national government. The capital markets union, in turn, would support the much-needed expansion of business financing, especially for small and medium-sized enterprises, in addition to bank financing. The diversification of financing would of course be accompanied by a diversification of risks. Removing

the barriers to the provision of capital in Europe has tremendous potential to boost growth, as these services can provide investment for activities that are currently unable to access bank financing despite soaring levels of liquidity. Both initiatives are included in the proposals presented in the five Presidents' report on *Completing Europe's Economic and Monetary Union.*

Besides these major steps, however, there is another crucial dimension to solving Europe's solidarity crisis. Europe's governments must change their perspective on key challenges and problems. Major problems that were traditionally regarded as national issues have evolved into European problems requiring European solutions. Logically, then, seeing issues that were once national problems as European challenges is the key component of European solidarity today. In practice, this means no longer regarding labour market regulation and liberalisation purely as a national issue, for Europe's growth and jobs depend on them. And vice versa: permanently high unemployment – and especially youth joblessness at around 25 per cent in France and 40 per cent in Italy, for example – is a key concern for Europe's future. Do we really think that Europe has a future if entire generations of well-qualified young people stand knocking at the doors of their European societies, only to be turned away? The challenge is this: each country must now identify with problems that were traditionally viewed as a matter for other nations and not our concern. That's why a collective form of political leadership is needed that brings individual governments together. This act would create the legitimacy that is indispensable for Europe – the legitimacy conferred by success in problem-solving. This legitimacy also increases acceptance, for it is never clear who, in future, will find themselves relying on others' solidarity. A good ten years ago, for example, Germany was viewed as the sick man of Europe. In the present situation, and as a matter of growing urgency, the euro community's three largest countries and economies – Germany, France and Italy – can and must bring about this success. And it goes without saying that a similar approach must be applied beyond the euro community to the other European challenges, such as the refugee crisis.

So what does this mean for Greece? It means that Europe's evolution, which is vital for our survival, can only be continued by overcoming the obstacle which the Greek crisis represents. The course set by the negotiating mandate is one of refusing to abandon Greece, yet insisting on drastic measures to overhaul its state and economy. This would certainly not come about without the voluntary compulsion of the euro community.